BALLENTINE PARTNERS

Wealth Management

The Right Way to Manage Wealth

BALLENTINE PARTNERS | ROY C. BALLENTINE, ChFC, CFP® | MAY 2016

The management of private wealth should be based on a process that:

1. begins with a strategic plan from which long-term goals are developed;
2. is comprehensive in scope and addresses important interactions between wealth planning issues;
3. takes a long view; and
4. is as free from conflicts of interest as possible.

This article addresses important questions for the owners of substantial private wealth:

- What is the right way to manage wealth?
- What mistakes do most families make?
- How can families avoid those mistakes?

Mistakes Most Families Make

The planning endeavors of most wealthy families lack clearly articulated goals. Because of the lack of clearly articulated goals, most families have no wealth management strategy. How can one have a strategy if goals have not been defined? Families' planning efforts tend to be tax-motivated rather than goal-oriented. Planning is episodic and compartmentalized, rather than comprehensive. Important interactions between planning issues are poorly understood; an attempt to solve one problem creates another problem that was not anticipated. Finally, families suffer significant costs due to conflicts of interest, of which they generally are not even aware.

The source of these problems lies in the manner wealthy families seek advice. Their discussions with advisors tend to be transaction oriented rather than values and goals oriented. As one family recently put it:

> "In 2010 when everyone was worried about what Congress would do with the estate tax laws, our advisors told us we needed to act immediately to transfer $5 million to each of our two children. We reluctantly followed their advice – reluctantly because we suspected there was more we needed to consider besides tax savings.
>
> Now, five years have passed, and we can see some of the issues we should have considered. We wish we had had comprehensive advice, including advice about how to better prepare our children for the impact of wealth on their lives. We should have paid less attention to tax savings and more attention to values we believe are important."

Families need an advisory relationship that is more consultative in nature, with advisors who are willing and able to assist in the exploration of family values and long term goals. Families should complete this work before committing to any significant transactions that may be difficult to unwind. The family should strive to develop a strategic wealth management plan that is based on shared values and beliefs.

Strategic Wealth Management

Strategic wealth management means developing and executing a plan that harnesses your wealth in the service of your core values and beliefs.

The first step is developing a deep understanding of your values and beliefs, and your vision for managing your family's wealth. Because "family," by definition, involves two or more people, there is plenty of room for values and visions to diverge. One spouse may desire to pass as much wealth as possible to the couple's children, while the other spouse believes inherited wealth is more likely to be a burden than a benefit, and each child would be better off finding his or her own way in life. Differences about money and values may play a central role in disagreements between spouses, parents and children, in-laws, or grandchildren. Resolving those differences, or reaching a workable compromise, is essential before any strategic plan can be implemented.

Family Values

Our preferred method to help family members articulate values and beliefs is to facilitate a discussion encouraging family members to share their values and seek common ground. Chart 1 shows the results of a discussion between a couple and their two adult married offspring. We use the Picture Your Legacy[1] process to help each participant identify his or her top three or four values. The key to this process is family members do not just identify their values, they talk about why the values they choose are important to them, and how they prefer to express those values through their lifestyle choices.

The participants use the information summarized above to search for common ground. They quickly identified some values that resonated with all family members. The values were:

- Importance of family
- Creativity
- Freedom and simplicity
- Outdoor life and conservation, as a way of expressing harmony and freedom, and spending quality time with family.
- Harmony and togetherness—Interestingly, this was not on any of the above lists. Family members added it during their discussion about one another's values.

These themes resonated with the family. Family members strongly agreed that, "Those values define who we are." We then asked, "What would it be like to focus your time, energy and resources in a manner consistent with your values?" Family members enthusiastically agreed that doing that would probably resolve most of the challenges the family had been facing in making financial decisions.

Example of Individual Results from a Family Values Discussion

Wife	Husband	Son	Daughter
Creativity. Tremendously important to me.	Freedom, outdoors, relaxation, calm.	Hiking, skiing, nature, and the outdoors.	Family, husband, and children.
Freedom, peace, serenity, equality.	Freedom, but with attachment, openness, independence	Challenging myself. Striving. Excellence.	Relationships with friends, grandparents, extended family.
Learning, education, using my mind.	Creativity, not being limited.	Making things better. Wondering what can be	Importance of career outside of home.

[1] Picture Your Legacy was developed by 21/64. See http://2164.net/store/tool/picture-your-legacy.

Putting Your Values to Work

Another family, prior to engaging Ballentine Partners, made a significant investment with the intention of assisting the economic development in a thinly populated and economically depressed area of their state. Family members had already devoted years of time and substantial financial resources to the project. Through a complex chain of events, the scope of the project had expanded far beyond the size originally envisioned. As the scope of the project expanded, the risk of serious problems or outright failure also increased. Some family members had serious doubts about the wisdom of proceeding. Due to its size and doubtful prospects for success, the project threatened to become a focal point of conflict within the family.

When the family discussed their shared values, it quickly became clear that the large project was inconsistent with their shared values. All family members agreed that they could find better – and more enjoyable – ways to use their resources. They realized they did not want to be tied down by a massive commitment to a large, complex economic development project. They told us later they shared a collective sigh of relief after making the decision to abandon that project and focus their resources elsewhere.

The family also used their shared values statement to guide a major restructuring of their other investments. Prior to retaining Ballentine Partners, their investment portfolio lacked an overall strategy, and there was no connection between their investments and their values. Now family members can see a direct connection between their values and their investment decisions.

Linked Values to Long-term Goals

The next step is developing your long-term goals. We guide families through a values-based goal setting process. Each goal is tested against the family members' shared values. Are your goals aligned with your values? If your goals are closely aligned with your values, it will be easier for you to make financial decisions.

We encourage families to write down their values and goals. There is something about the process of writing things down that forces a clarity of thought that is not achieved simply by talking about the same issues. A written document has three other big advantages: (1) it creates a record of the discussion that can be referenced later, (2) all participants can more easily understand the substance of their agreement, and (3) the agreement can be more clearly communicated to others.

Family members benefit from this process in the following ways:

- Reduced conflict in the family regarding allocation of the family's resources
- Reconcile conflicting values and objectives
- Leveraging family resources
- Measure progress toward goals

Comprehensive Plan

A comprehensive wealth management plan is one that encompasses all aspects of the family's wealth: all assets and liabilities, all relevant technical issues; the family's human and social capital, values and beliefs. The plan should look far into the future, taking a multi-generational perspective. A comprehensive plan must include an analysis of the interactions between planning issues that are relevant to the family's wealth management goals. For example, every investment decision has implications for the family's cash flow, liquidity, income taxes, risk management, gift and estate planning, and charitable gift planning.

Some of the best wealth planning opportunities are found in the interactions between planning issues. For example, asset location planning requires a deep understanding of the family's cash flow, investment strategy, asset allocation, risk management, and estate plan. That type of planning is often best done by a team of skilled advisors (CPA, estate planner, tax advisor, etc.) who collaborate under the leadership of a skilled financial planner who has a thorough understanding of the family's values and goals and is able to integrate information and ideas contributed by the specialists.

Most wealthy families miss significant planning opportunities because they don't conceive of the value that can be derived from teamwork among their advisors, and their advisors lack the leadership required to cause a team to coalesce. When was the last time your advisors came to you as a team and suggested they spend a day working with your family to develop a comprehensive long-term plan for the management and preservation of the family's wealth? Most wealthy families never experience the benefits of sophisticated teamwork among their advisors.

A well-crafted comprehensive plan is not a static document. Rather, it must be managed as a complex, dynamic system. Every significant change in the family's situation and the external environment may require an adjustment to the plan. For example, behavioral issues and moral hazards must be taken into account. Those factors evolve as family members mature and the plan must evolve with them.

Taking the Long View

The destruction of family wealth is well documented through history and across cultures. Every major society has a saying similar to this: "From shirtsleeves to shirtsleeves in three generations." The expression captures a well-known pattern: The wealth created by the first generation will be consumed or destroyed within two more generations.

Families wishing to preserve wealth must focus on building human capital and financial skills within the family. That is a long-term endeavor which must begin when children are very young and continue into adulthood. Teaching children and young adults sound money values and skills is an essential element of that process.

Some families have decided to sidestep the family wealth preservation challenge by giving all, or substantially all, of their wealth to charity during lifetime or through their estates. That addresses one problem and creates another. As Andrew Carnegie said, "It is more difficult to give money away intelligently than to earn it in the first place." Families choosing to give their wealth to charity also need to take a long view of how that wealth will be managed and deployed. Some of the original donors of large private foundations would be quite surprised (and perhaps also quite unhappy) with the manner their wealth is being used today.

Conclusion

The right way to manage private wealth is to begin with a deep understanding of your family's values and beliefs and employ that understanding to develop long term goals. With your goals in hand, it is then possible to develop a strategy and a comprehensive plan to advance toward your goals. The plan must explicitly address interactions between the various planning issues relevant to the management of your family's wealth. That is where some of the best planning opportunities are likely to be found, and it is also where potential problems must be identified and solved.

Whether you plan to transfer wealth across generations or give it all to philanthropic endeavors, sound planning generally requires a time horizon of 50 years or more. That is what we mean by "take the long view." Finally, families should seek objective advice, particularly with regard to their investments. Conflicts of interest in the world of investments are myriad, and the cost of conflicted advice is far higher than most wealthy families realize.

About Roy C. Ballentine, ChFC, CFP®

Roy is the Executive Chairman and Founder of the firm. Roy dedicates his time to thought leadership, strategic oversight of client engagements, and coaching and training our team members.

This report is the confidential work product of Ballentine Partners. Unauthorized distribution of this material is strictly prohibited.

The information in this report is deemed to be reliable but has not been independently verified. Some of the conclusions in this report are intended to be generalizations. The specific circumstances of an individual's situation may require advice that is different from that reflected in this report. Furthermore, the advice reflected in this report is based on our opinion, and our opinion may change as new information becomes available.

Nothing in this presentation should be construed as an offer to sell or a solicitation of an offer to buy any securities. You should read the prospectus or offering memo before making any investment. You are solely responsible for any decision to invest in a private offering.

The investment recommendations contained in this document may not prove to be profitable, and the actual performance of any investment may not be as favorable as the expectations that are expressed in this document. There is no guarantee that the past performance of any investment will continue in the future.

BALLENTINE
PARTNERS

info@ballentinepartners.com
https://ballentinepartners.com