

KEEPING WEALTH IN THE FAMILY:

CREATING A FAMILY

LEGACY



# INTRODUCTION

For most wealthy families, preserving and enhancing their wealth, and leaving a legacy to future generations are primary goals. Though you may not think of your family as a multi-generational enterprise, you probably have hopes and dreams for your children and grandchildren. Through a strong sense of shared purpose and careful stewardship of wealth, you can help ensure that your family legacy continues long after you're gone.

However, there are many threats to the preservation of wealth and its transfer to the next generation. Nearly every culture in the world has a proverb about the creation and dissipation of wealth between generations:<sup>1</sup>

“Father merchant,  
son gentleman,  
grandson beggar

- Spain

“From the stables to  
the stars and back  
to the stables

- Italy

The reasons behind this phenomenon are complex and vary between families, but reasons include high estate and tax burdens; unmotivated or ill-prepared heirs; conflicts and fragmentation among members of future generations; poor financial management; and changes in business environments.

We developed this paper to help affluent families successfully create a family legacy for future generations.

“Rice paddy to  
rice paddy in  
three generations

- China

“Shirtsleeves to shirtsleeves  
in three generations

- England



## WHAT IS FAMILY CAPITAL?

A family's wealth can be thought of in three different ways:<sup>ii</sup>

- Its human capital, which is made up of all the members of the family.
- Its intellectual capital, which is the knowledge, skills, values, and dreams of those members.
- Its financial capital, the physical and financial assets that the family owns.

We purposely list financial wealth last, because we believe that intangible human assets are much more important to your family's happiness, comfort, and long-term success. Ultimately, to successfully navigate generational transitions and create an enduring legacy, you will need strategies that protect and nurture all the capital your family possesses.

## CREATE A FAMILY CULTURE

Research shows that families who develop an internal culture based on shared values, family priorities, and philosophies around wealth tend to do better over the long run.<sup>iii</sup> Our experience suggests the same: successful multi-generational families need a shared sense of purpose, grounded in a long-term view of the family's future.

A family mission statement is a powerful way to express the shared values and principles that guide your life. We believe that it's important to involve all members of a family - young and old - to build a shared vision of the family's future. James E. Hughes, one of the world's acknowledged experts on family wealth, describes a family mission statement as a "social compact" that each generation must choose to reaffirm and support.<sup>iv</sup>

Giving each generation influence over the family's purpose is a great way to build ownership in the family's future and promote better communication.<sup>v</sup> Communication is vital to a healthy family dynamic, and creating safe ways to resolve issues is critical to supporting your family culture. Research indicates that 60 percent of failures in

A family vision must be shared and supported by all generations of the family. Current leaders must give up some control and be willing to adopt the views of others.

### Definition of *Legacy*:

1: something transmitted by or received from an ancestor or predecessor or from the past;  
2: a gift by will especially of money or other personal property.

Merriam-Webster Dictionary



generational wealth transfers are due to breakdowns in communication. Whether it's through formal family meetings, mediation by outside experts, or casual conversations, fostering honest dialogue between family members builds trust and promotes family satisfaction.

Family stories and group rituals also play an important part in creating a family culture and promoting communication. Hughes states that,

## ACTIONS YOU CAN TAKE NOW:

- Discuss ideas about the family's identity, values, and priorities for the future with your family.
- Ask each family member to create a list of important actions and events in family history and what they wish to be remembered for
- Craft a family mission statement that explicitly states your shared family purpose and direction.
- Think about how your mission and purpose affect your legacy and philanthropic goals.
- Meet with family office advisors to discuss supporting your mission statement through wealth management, philanthropic planning, and other areas.



“families who recognize with ritual the important passages in their members’ lives seem to fare better at overcoming the shirtsleeves proverb.”<sup>vi</sup> Family rituals serve the purpose of recognizing the developmental stages of your family, while promoting shared memories and family cohesiveness. Creating family lore by sharing important stories is a wonderful way to pass on history and values to the next generation.

## MANAGE WEALTH FOR THE FUTURE

As a family, one of the most important first steps you can take to preserve and enhance your wealth is to define wealth objectives for the future. By aligning these long-term goals with your family's mission and purpose, you create a system by which your wealth supports the family's goals and vice versa. As advisors, we find going through this exploration process useful because it helps us understand the dreams that make up your family's future. Once we understand your family's goals, we can identify risks and create strategies to help achieve these wealth objectives.

A 2006 Family Office Exchange survey found that most wealthy families expressed similar objectives for their wealth. The majority of responses fell into these categories:<sup>vii</sup>

- Ownership and control
- Financial security and continuity
- Family continuity and governance
- Wealth preservation and enhancement

Wealthy families want to stay wealthy. We believe that one of the best ways to protect wealth is to identify, reduce, and actively manage risk.

A study by J.P. Morgan Private Bank found that only 54 of the 400 1982 Forbes Wealthiest Americans remained on the list in 2003. Overall, 85% of America's wealthiest individuals had dissipated their wealth, largely because of poor financial management. A significant number of names



dropped from the list because of death, large philanthropic gifts, or the dilution of their estate among many family members.

However, an alarming number drained their wealth through issues like over-spending, too much leverage, family discord, and taxes.<sup>viii</sup> Our experience suggests that holistic wealth management that provides guidance and advice in light of your family's total picture, is one of the best ways to preserve wealth for the future. We believe that an integrated approach to managing your complex affairs yields better results over the long-term.

Another issue that many wealthy families face is the problem of over-concentration of family assets within a business or industry. It's very common for entrepreneurial founders who have built their wealth through a deep understanding of business to want to keep their assets within an area that they understand well. However, this can leave your family's wealth at risk of unexpected events.

## ACTIONS YOU CAN TAKE NOW:

- Ask family members to list future goals and objectives for family wealth.
- Think about how your goals fit with your family mission statement.
- Meet with family office advisors to discuss how your current wealth management and investment strategies align with your goals.

25% of failed  
generational wealth  
transfers are caused by  
unprepared heirs.

Preparing Heirs, 2003

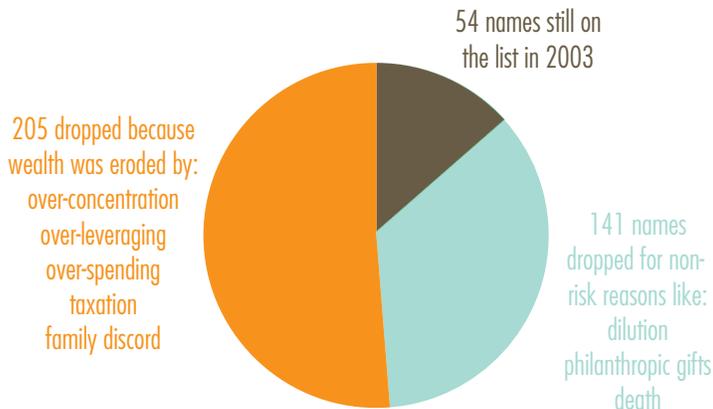
There are also business advantages to separating family capital. When too much family wealth is invested in a business, it can promote excessive risk aversion and hamper growth. Diversification at a family level can simplify transfers of control and liquidity events by avoiding the need for family members to take money out of the business.

A proper diversification strategy can also help reduce market risk after key liquidity events. One of the biggest threats to your family's financial future can occur after a successful business exit. Businesses are most commonly sold during bull markets, when buyers have liquidity and a greater willingness to take risks. After a liquidity event, family members may find themselves with a large fortune and will be looking for opportunities to invest.

To paraphrase Gregory Curtis, author of the well-regarded book *The Stewardship of Wealth*, the best way to avoid losing your fortune is to avoid jumping into markets with both feet. Our experience suggests that a prudent long-term plan, driven by a shared family mission, well-conceived wealth objectives, and a holistic view of your total financial picture yield better outcomes over the long-term.



## FORBES 400 WEALTHIEST AMERICANS 21 YEARS LATER



Source: Beating the Odds, J.P. Morgan Private Bank, 2004

## PREPARE THE NEXT GENERATION

Preparing your children for the weight and responsibility of managing family wealth helps reduce the risk of dissipation and mismanagement. Starting the process early helps ensure that your children grow up with the right attitude towards money and the tools they need to protect themselves.

We believe that one of the best values you can teach the next generation is the concept of stewardship. By teaching your children and grandchildren about the value of money, the history behind your family's wealth, and how your family chooses to spend money, you help them understand the importance of developing good financial habits.

In our experience, many heirs are ill-prepared for managing financial affairs. Comprehensive financial education is a key best practice for enduring families. Education should be a key piece of your legacy because it promotes responsible wealth management, engagement, and greater appreciation for family wealth and the opportunities it provides. We advise viewing education not as a single event, but as a lifelong journey.

For the families we serve, we frequently recommend education programs. However, without the full support of family members and dedicated mentors within the family, it's very easy for financial

education to be neglected or put off. We strongly recommend beginning the education process as early as possible so as to give your heirs the tools they need to make sound financial decisions in life.

A comprehensive education program should cover topics like:<sup>ix</sup>

- Family values about wealth, work, philanthropy, and stewardship.
- Basic financial literacy about risk, debt, spending, saving & investing in capital markets, working with advisors, and managing financial accounts.
- Understanding family wealth structures and any rights and responsibilities as a family member.
- How to make good financial and life decisions as an affluent individual.

Another important aspect of preparing your children for the future is helping them discover their own path in life. It's very common for affluent parents to want their children to have deeply held beliefs about what their children should do with their lives. However, by empowering your heirs to choose their own destiny, and supporting their search for happiness, you create a powerful legacy of freedom and individual responsibility that will yield dividends later in life.

## ACTIONS YOU CAN TAKE NOW:

- Think about what your children and grandchildren need to know about wealth, stewardship, and managing money.
- Ask each member of the family what financial skills and values they think are important.
- Nominate a family member to champion education in your family.
- Take time to mentor younger family members about money and what it means to your family.
- Meet with family office advisors to craft a personalized education plan for your family.



## ACTIONS YOU CAN TAKE NOW:

- Think about what charitable causes are closest to your heart.
- Ask family members to list their favorite charities and philanthropic activities.
- Discuss how philanthropy aligns with your long-term wealth objectives.
- Consult a family office advisor to discuss how strategic philanthropy can help boost the effectiveness of your giving.

## INCORPORATE PHILANTHROPY AS A FAMILY VALUE

Many wealthy families include support for philanthropy in their mission because they believe strongly in the need to give back to their communities and society as a whole. Charitable giving can provide many intangible benefits to your family. Family philanthropy promotes family cohesiveness and helps engage the next generation through shared family experiences.

Shared philanthropic goals can help support the family culture and give future generations shared financial goals that reduce the risk of wealth splintering. A widely held view in the family wealth space is that families often split in the second or third generation because of competing financial goals and disagreements about how to use family money.<sup>x</sup> Building a philanthropic purpose for your family's wealth can help build a sense of shared responsibility among members of future generations and bolster family continuity.

Families give in a variety of ways. Whether it's donating time, money, or knowledge, philanthropy promotes social responsibility and can help promote stewardship in your family. Charitable work also provides a safe, nonjudgmental space to explore financial literacy, stewardship, and share family values around money. By including young members of the family in philanthropy and empowering them to make decisions about charitable giving, you encourage greater engagement and support for important family values.

# HOW HUTCHINSON FAMILY OFFICE CAN HELP

Ultra-wealthy families have long benefited from setting up family offices dedicated to their needs. However, single family offices can be prohibitively expensive to run.

Today, multi-family offices offer the same tailored services and highly specialized advice to a select group of wealthy families, thus bringing the benefits of a family office at a reasonable cost.

Traditional wealth management firms deliver investment and financial advice in a silo, and do not have the expertise to provide guidance about taxation, wealth transfer, philanthropic planning, or multi-generational family support. A family office provides a team with diverse expertise who can manage your comprehensive affairs and coordinate services, ensuring that all parts are integrated into a seamless whole. This holistic guidance ensures all aspects of your financial life are working together to support your goals and objectives. By becoming

the single point of contact for all of your advisors, we can create a cohesive plan to help preserve and grow your wealth.

We understand the needs of wealthy families and can help your family navigate the challenging process of becoming an enduring family enterprise. Our advisors are skilled at helping wealthy families develop their human, intellectual, and financial capital, unlocking the potential in every generation of your family.

We can help you evaluate your current circumstances and develop plans using strategies designed to help protect and grow your wealth in all market conditions. We understand how to translate your hopes, dreams, and family philosophy into durable plans for future generations. Our goal is to support our families through an integrated approach to wealth structuring, financial management, legacy planning, and concierge services.

## LESSONS FROM THE ROCKEFELLERS:

One of history's great examples of a successful legacy is that left by John D. Rockefeller, Jr, the son of the great 19th century magnate. While his father was renowned for his business acumen, his son became a great philanthropist and family steward. Along with one of American's largest fortunes, Rockefeller Jr. left his six children a legacy of philanthropy, stewardship, and family governance that continues to grow and protect the family's wealth generations later.

One of the best decisions Rockefeller Sr. Ever made was to allow his son to pursue his own individual dreams, rather than those of his father. Rockefeller Jr. Continued that tradition and encouraged his children to pursue their own passions and ambitions.

Source: Family Wealth: Keeping it in the Family, 2004

# WHAT MAKES HUTCHINSON FAMILY OFFICE DIFFERENT

While many of our families work with us for our deep expertise and unparalleled service, we believe our genuine interest in their values and the story behind their wealth sets us apart. We care deeply about the well being of each individual member of our families and work hard to support their legacy and long-term goals.

We cannot be all things to all people. We prefer to work closely with an exclusive group of families that share our belief in the value of comprehensive management and concierge services. Our families view us as partners in their success and we are deeply honored by their trust.

**If you would like to join an exclusive group of families, we invite you to call us for a complimentary consultation.**





<sup>i</sup> Ward, John L. Perpetuating the Family Business: 50 Lessons Learned From Long Lasting, Successful Families in Business. pg 4

<sup>ii</sup> Hughes Jr., James E. Family Wealth--Keeping It in the Family: How Family Members and Their Advisers Preserve Human, Intellectual, and Financial Assets for Generations. pg 12

<sup>iii</sup> "The 25 Best Practices of Multi-Generational Families." GenSpring. [http://www.genspring.com/wp-content/uploads/2013/12/WP-25\\_Best\\_Practices\\_Multi-Generational\\_Families-GENSPRING.pdf](http://www.genspring.com/wp-content/uploads/2013/12/WP-25_Best_Practices_Multi-Generational_Families-GENSPRING.pdf) [Accessed 9 June 2014]

<sup>iv</sup> Hughes Jr., James E. pg 19

<sup>v</sup> "The 25 Best Practices of Multi-Generational Families." GenSpring. [http://www.genspring.com/wp-content/uploads/2013/12/WP-25\\_Best\\_Practices\\_Multi-Generational\\_Families-GENSPRING.pdf](http://www.genspring.com/wp-content/uploads/2013/12/WP-25_Best_Practices_Multi-Generational_Families-GENSPRING.pdf) [Accessed 9 June 2014]

<sup>vi</sup> Hughes Jr., James E. pg 51

<sup>vii</sup> "The 25 Best Practices of Multi-Generational Families." GenSpring. [http://www.genspring.com/wp-content/uploads/2013/12/WP-25\\_Best\\_Practices\\_Multi-Generational\\_Families-GENSPRING.pdf](http://www.genspring.com/wp-content/uploads/2013/12/WP-25_Best_Practices_Multi-Generational_Families-GENSPRING.pdf) [Accessed 9 June 2014]

<sup>viii</sup> "Beating the Odds." J.P. Morgan Private Bank. [http://www.familybusiness.org.il/download/files/beating\\_the\\_odds.pdf](http://www.familybusiness.org.il/download/files/beating_the_odds.pdf) [Accessed 9 June 2014]

<sup>ix</sup> "Education Is the Key to Your Family's Financial Future." Family Office Exchange. <https://www.familyoffice.com/insights/education-key-your-familys-financial-future> [Accessed 9 June 2014]

<sup>x</sup> "Five Ways Families Can Take the Enterprise View." Family Office Exchange. <https://www.familyoffice.com/insights/five-ways-families-can-take-enterprise-view> [Accessed 9 June 2014]



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