Protecting families from their wealth

By Andrew Osterland
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When Tom Rogerson talks to wealthy families about how to preserve their wealth and make it work for them, he knows from difficult experience of what he speaks.

Born into a family of substantial wealth created by his great-grandfather Charles Rogerson, Mr. Rogerson grew up in the lap of luxury. There were fancy cars and boats, his father's airplanes, multiple homes and summer cottages.

But by the time Mr. Rogerson was in college, the money was gone.

“Every branch of the family made their own mistakes,” said Mr. Rogerson, who recently joined Wilmington Trust NA as a senior managing director and family wealth strategist.

He now devotes himself to helping wealthy families avoid his own family's fate.

“We all did what we thought was normal, but no one really knew what normal was,” he said.

Mr. Rogerson represents a new breed of wealth counselor for ultrahigh-net-worth families. With a background in estate planning and wealth management, he is part psychologist and part financial planner, focusing his efforts on “family governance” and the soft side of wealth planning.

Firms that provide investment advice to ultrahigh-net-worth families increasingly are looking to such counselors to help their clients deal with the nonfinancial issues that come with extreme wealth.

They don't tell clients how to diversify their portfolios. They don't seek out access to the latest alternative investments or devise tax strategies to help them shelter their wealth.

Instead, they help families talk about money and about their objectives in life.

“What is the purpose of a family's wealth? What is it supposed to do? These are questions a portfolio manager wouldn't even know to ask,” said Charlotte Beyer, founder and chief executive of the Institute for Private Investors, which provides educational and networking resources to wealthy investors.

“It's a natural evolution in the awareness of wealth holders,” she said.

And it is a consideration that wealth management firms are realizing is crucial to preserving family legacies and, of course, lucrative client relationships.

“Firms have seen what happens to wealthy families if they don't know where they want to go,” Ms. Beyer said.

It isn't pretty. A study of 3,250 wealthy families by The Williams Group, which provides “post-transition estate planning,” found that 70% of very wealthy families lose their wealth in the generation succeeding the family member who created it. For 90% of those families, the legacies are gone by the third generation.

Beyond those gloomy statistics, members of extremely wealthy families often suffer from low self-esteem and lack a sense of direction in their lives, and they blame their parents for it. Anecdotally, financial advisers said there is a high degree of drug use and high suicide rates among members of wealthy families.

“It's been proven throughout history that 90% of the time, either the family wealth is gone, the relationships between family members are bad or both,” said Charles D. Haines Jr., chief executive of Kinsight LLC, a Birmingham, Ala.-based investment advisory firm that caters to wealthy families.

FEAR FACTOR

Families rarely understand the reasons for the demise of their wealth, Mr. Rogerson said.

He noted a study by the Family Office Exchange that asked first-generation wealth creators what they most feared in terms of jeopardizing their family's wealth. The top three fears (in order of importance) were bad investments, a bad economy and politics — specifically, the government's taxing their wealth away.

“Only 7% of the respondents said the biggest risk was their own family's functionality, communication and trust,” Mr. Rogerson said.

The Williams Group's study, however, found that economic, investment or political factors were almost never the reasons why a family loses its wealth. Instead, the overwhelming factor in a majority of the cases was a breakdown of communication and trust between family members.

Heirs to wealth were unprepared for their inheritances, had lifestyles they ultimately couldn't sustain, and had little cooperation with other family members to protect their legacy.

“One of the last things people give up is their lifestyle,” Mr. Rogerson said. “It's very hard to go down the ladder.”

The problem is that patriarchs and matriarchs don't involve their children in financial matters early enough.

“Very often, the first time children get together to talk about the family wealth is when their parents die,” Mr. Rogerson said. “The challenge is how to create a decision-making process about money that children can get involved in.”

OPEN COMMUNICATION

There is no silver bullet to foster the kind of open communication and engagement that wealthy families need, Mr. Rogerson said. The typical first meeting he schedules with a family has nothing to do with money or inheritances.

Instead, Mr. Rogerson attempts to draw out what issues are important to different members of the family, how they view their own and their relatives' communication styles and what they value most.

In subsequent meetings, he begins to bring up issues such as family philanthropy, lifestyles, prenuptial agreements and other more wealth-related subjects.

“I just try to create an environment to help them start talking about these things,” Mr. Rogerson said.

Mr. Haines gets the ball rolling with what he calls a heritage statement for the family. It provides a history of the family and articulates the values and messages that family stories embody.

It may sound a little dry for the teenagers, but Mr. Haines mixes in lighter exercises designed to put people at ease.

“It needs to be fun. People learn a lot more quickly if they're having fun,” Mr. Haines said. He conceded that this doesn't work with every client, but said that families themselves drive this new form of wealth counseling.

“Our left-brain industry has a tough time making a jump to the right side and to softer issues,” Mr. Haines said. “It's so much more important than just managing a portfolio.”

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