FAMILY WEALTHREPORT
EXCLUSIVE INTELLIGENCE FOR THE FAMILY OFFICE COMMUNITY

The Art Of Giving: Channeling The Force Of Inherited Wealth

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20 February 2013

I am opposed to millionaires, but it would be dangerous to offer me the position ~ Mark Twain

Money exerts a powerful influence over its owners and when money changes hands it can bring out sides to people that previously lay hidden, says Richard Del Monte, president of Del Monte Group.

According to research from the universities of California and Toronto, wealthier individuals find it relatively harder (than less wealthy ones) to ask for help and communicate over their desired life outcomes, are less cognizant of others in their social environment, and are less likely to display "other-oriented" non-verbal behavior (source: Paul Piff, Michael Kraus, Bonnie Hayden Cheng, and Dacher Keltner, 2010).

It is perhaps no coincidence, then, given that money can draw out traits that make it harder to cooperate with and trust others, that many estates in transition fail.

"I began my career as an investment advisor and in helping families accumulate their wealth over several decades I started noticing that when the parents were passing away, when the wealth would go to the children suddenly some really dramatically ugly things were happening," says Del Monte.

These included reckless spending, lending and investment, coupled with a tendency for siblings to fight and sue each other. It was through seeing this that Del Monte came to realize that "the whole shirtsleeves to shirtsleeves phenomenon in three generations, is definitely true."

However, despite famous proponents of leaving money to charitable causes rather than children, Del Monte decided a lot more could be done to improve the chances of heirs making a success of their own lives and inheritances.

Deciding this, though, meant acknowledging some harsh realities about wealth that go against the grain of a society founded on creating it.

"Unmanaged, wealth is a very destructive force," he says. "Wealth is a lot like a flood, when the rains come and flood a whole area, and you have to create damns and levies to channel it so that water can behave properly and fulfill its function. To me wealth unchecked is like flood plains, it creates incredible amounts of destruction."

A poor track record

It would appear those levies have not been in place, according to historical data on the failure rate of estate transitions (Preparing Heirs, Roy Williams and Vic Preisser). Research and experts agree that failures are down to poor communication and a lack of preparation of the next gen. Del Monte agrees with this wholeheartedly, but his own process of rectifying it has a strong emphasis on teaching the older generation to be mentors.

"Giving money well is an art form," says Del Monte. "Parents will routinely give to their children…to reduce their estate tax, and it's not really related to what's good for the children.

Specifically, money that is given "badly" can result in guilt, because it is unearned; dependency, and a loss of resilience, he says.

"And then you start seeing self destructive behavior come out, I mean all the worst parts of people are just magnified by wealth if you don't prepare the people to receive it," he says. "There is an education process with the wealth creators around this, because they're not taught by their advisors to even go there, it's not on their radars."

His process starts with the parents or family leaders on their own. He helps them to understand the values and skills that propelled them to success. Core values are drawn up from this discussion, with commonly-emerging themes being perseverance, hard work, education and faith.

These are then transformed into a "family vision statement," along with key experiences and aspirations for descendants. The tone of this is paramount.

"It's not written in a way that says 'this is what you must do'," says Del Monte, "it's more aspirational, like 'we hope that you will have these kinds of experiences and that you will take our lessons and use them to help you figure out what your journey is'."

The family meeting

The next step in the process is a one-day family meeting where the family completes a set of tasks.

"One thing is we'll have mom and dad tell their story of their wealth creation and their time together, and we'll have them do this in a way that is like adult to adult," says Del Monte. He coaches the parents beforehand on taking the didactic tone out of this conversation. The deeply-embedded hierarchy in the relationship causes distance, he says, and causes people to switch off.

"A lot of these children have never heard that mom and dad went bankrupt twice. All they know is that mom and dad are superman or superwomen, and so you get them to see that they've made a lot of mistakes and they've still been able to succeed and they've struggled," he says.

This helps to break down the impression that wealthy parents are infallible, allowing their offspring to understand that mistakes, failures and difficulty are inevitable on the route to success.

"Terrified to take a chance"

"I've found that often second generation family members are terrified to take a chance and struggle on their own because they're afraid of failure and they're afraid of looking bad in the eyes of superman or superwoman parents, and so they don't even try. And this gives them permission to go out and try," says Del Monte.

It is also a move towards full transparency over wealth, he says – a cornerstone of trust and communication.

The task for the next generation, meanwhile, is to work together on a project – such as investment or philanthropy, funded by the parents – over a set period of time and present the results to their parents.

He says that while children often fret about showing their parents they are successful with this, more often than not parents just want to know their children can cooperate.

Ongoing governance

The final step in the firm's process is to create a form of family governance.

"It could be a family council if they want to be more formal, with bylaws, or it could be something more informal," says Del Monte, "but you want to create some kind of entity that different generations of the family can aspire to join when they reach the age of majority and that provides a forum for the family to get together and air their problems and differences and figure out what they want to do. It holds them together."

This governance should allow for dynamism within the family unit, embracing sons- and daughters-in-law, for example, as this will allow the family to evolve successfully, he says. It should also shake up the family dynamic, so he advises parents to appoint the "least likely" child to an active role.

"Mentor the next generation now"

Del Monte has one bit of advice which he thinks advisors to wealthy families should consider.

"We'll see parents that typically give annual gifts to their children and not put any strings on it, and then when they die they put all these covenants and restrictions on the money for their children to get at. And really if they just switched that, and reversed that process…you can do what George Peabody did," he says.

Peabody was an American-British banker, born in 1795, who went on to become a famous philanthropist. According to Del Monte, he regularly gave money to all his nieces and nephews (he didn't have any children) and made them write to him each year to explain what they had done with the money. "So he used that as a way to mentor them on how to handle wealth," he says.

"And so at the end of his life he was confident they were able to deal with the money and he left them his fortune outright without any restrictions at all. Because he knew they were ready. Well contrast that with what most families do know, they give gifts freely but then put restrictions on the other side, and you can see the opportunity to just switch that and mentor people, mentor the next generation now, and give them more freedom."