Old Money and New Money: Exactly the Same but Different

By Susan Bradley, CFP®, CeFT®

What's the same?

- Both types of clients might come to you as individuals, but their family structures, dynamics, and histories will be featured prominently in your work with them.
- Both types of clients will experience life events that often dramatically alter their personal finances. This is the technical side of your work with them.
- Both types of clients had life experiences before those events that informed their identities and mindsets that (consciously or not) influence their spending and investing habits, their definition of and comfort level with risk, the type of advice they seek, and more. Essentially, it's the personal side of client experience that drives decision-making and even affects what clients see as their options.

Old Money: Dianna

Dianna is a new client of yours who is part of an old-line family and has just received her big inheritance. She received smaller amounts in the past from family members but didn't do well with the money. Fortunately or not, her family's extraordinary wealth and the support of the family office softened any potential blow. She hopes you will help her avoid past mistakes and invest her money wisely.

Dianna is divorced, doesn't have children, and is exploring new career options and possible new areas to live. She is comfortable with the homes and clubs of her family, but she's looking for new experiences that feel like a personal fit. Her family expects her to keep her money within the family office, but she has never felt comfortable being part of the family system. This is her one-time big financial event, and she feels both lost and resolved to going it alone.

She says she wants to be given an amount she can set the course for an enriching, inspiring type of client engagement. Although all of this is true for all clients, old-money and new-money clients tend to offer extreme examples and have important differences, which makes examining them and comparing them particularly instructive.

The whys of someone's behavior tend to originate in the past and are not under your control, but uncovering them is. Fairly typical whys for old money are very different from those for new money, but because every client is different, starting with the client's own unique guiding principles—not your assumptions or biases—is of paramount importance.

The hows are where the bulk of your work as a wealth manager lives. The hows are the opportunity to improve a client's life by helping that client thrive and create "intentional wealth" that is aligned with purpose and values, even if that means creating a plan to give all of the money away. Many of the hows are the same for old- and new-money clients, but there are some striking differences. Let's look at two examples.

Old Money: Dianna

Uncovering genuine intention is necessary if you are going to help your clients with the "how" part of your work together. Skillful implementation can prevent clients from making choices that don't serve them and can set the course for an enriching, inspiring type of client engagement.

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Josh and his family as rich. Over the decades of building his business, Josh went through many tough times and developed smart financial habits. He knows how to generate income from his business, and he needs to know his financial advisor can generate income from investments. Josh has a long-standing relationship with his accountant and his insurance advisor, and he has come to you because he is looking for a financial advisor.

Josh comes from solid middle-class stock—people who worked, saved, educated their children, and paid their bills. He is the first entrepreneur in his family and the first to have a large amount of wealth. He wants his lifetime of hard work to last for generations. He has lived modestly with his wife, Karen, and their two teenagers. Karen is overwhelmed by their new wealth; she never expected it and she wonders what it might mean to them as a family. The teenagers are already asking what they can do and have now that they are rich.

As the business sale started to become real, Josh began to imagine owning a specific car, taking the family on a luxury vacation, and buying a waterfront home with a dock and a large boat. Meanwhile, Karen has read about families breaking up when they become wealthy and she is worried about what will happen. She would rather remain in their current home and not show their wealth.

Commentary
Dianna's story and Josh's story have a lot in common. Both clients are coming to you for help as they experience life transitions. Transitions are challenging times full of opportunity. At their core, they are really about change and adaptation. Linsky and Heifetz (2002) write about adaptive leadership and what people need to do during times of change to successfully adapt. They don't need someone to fix whatever goes wrong and tell them exactly what they need to do. They need to do their own work and find their own way, with the patient guidance of someone who understands where they are and what they need. Linsky and Heifetz call this “giving the work back.”

The issues that most frequently arise with both old-money clients and new-money clients are particularly instructive because they highlight the differences between the two groups. Below are descriptions of these issues and recommendations for how to give the work back.

Identity
Like other transitions such as retirement, the death of a spouse, or the signing of a professional sports contract, the “sudden money” events that Dianna and Josh experienced thrust them into positions where their identities are beginning to shift along with their circumstances.

When a struggle with identity arises, problems with spending and investing are usually not far behind. People who aren't clear about who they are or who they want to become are unable to identify why they behave the way they do. They will act from the place of frustration and struggle, and the results are likely to be disappointing at best.

William Bridges, the father of life transition theory, would call Josh's experience “disidentification,” an experience between “loosening the bonds” of the previous identity and transitioning to the new identity (Bridges 2004, 94). Josh is no longer a business owner with all the patterns, norms, and people who had shaped his sense of who he was. With more wealth than any of his family members, friends, or neighbors, he wonders, “Who am I now, without my business and with this much money?” Disidentification is a frequent theme for new-money clients as they must navigate a new world. Family-wealth consultant and author James Grubman calls this “immigration to the land of wealth” (Grubman et al. 2009). This is a struggle with uncertainty that is about creating values and identity that are aligned.

Meanwhile, Dianna yearns to separate herself from her family, but obviously not too much. This is her opportunity to distinguish herself from her family through her choice of advisors and through the decisions she makes. She needs to deconstruct her family’s values and decide what to keep and what’s no longer useful to her. Dianna’s quest is likely “individuation”—to achieve a sense of individuality separate from the one she inhabited within her family before receiving her money. Her identity question is: “Who am I separate from my family?”

Identity: Giving the Work Back
What does an advisor do with this information? Begin by not judging the client. Identity issues can be at the heart of problematic spending and other regrettable decisions and behavior. By being aware of your client's challenge, you can see the behavior as normal considering the transition, which should make it easier to provide guidance.

Josh and Dianna each need some time—and a "safe space"—to think and feel their way through to the people they are becoming. For new-money clients, you can expect to see some big-ticket spending in the beginning to celebrate the event. This is what Grubman calls "rampart spending," where newly wealthy individuals spend on what they have long been denied. For those who had healthy relationships with money, their spending decisions will revert back toward their previous patterns, but for newcomers who never learned how to exercise good judgment, trouble lies ahead.

Spending
Like many old-money individuals, Dianna is accustomed to living with means and free from the financial grind. She has no illusion that she could replace the money if it were lost or that she could earn the money needed to maintain the lifestyle she enjoys. That lifestyle has its origins in a family with unspoken guidelines of propriety and necessity in spending. Her definition of wants and needs has been created by decades within a large family structure that assumed a level of luxury she has come to view as essential. She simply assumes she will/can fund a certain level and quality of lifestyle.

You can probably see Dianna's potential problem from far away: She doesn't know what it means to have limits on her spending. She understands the idea theoretically
and firmly believes she is capable, but she has no experience with budgets or allowances and hasn't developed sound financial habits. She wants her new identity to match the old one in lifestyle, but that might not be realistic. Her challenge is to get comfortable with the idea of monthly limits and to make lifestyle choices accordingly.

Josh, on the other hand, wants a new lifestyle as part of his new identity. He will be purchasing things for the first time and getting comfortable with his financial freedom. He likely will do some rampart spending over the next year or two and then return to his reasonable habits. Making certain Karen is on board with his spending over the next year or two and then return to his reasonable habits. Making certain Karen is on board with his financial freedom. He likely will do some rampart spending over the next year or two and then return to his reasonable habits.

The regular running of “what if?” scenarios can help. Use the client’s ideas and expectations around interest rates, cash-flow needs, and other variables. Establishing this practice makes it easier when the difficulties arise, because then they are just another time you run alternative scenarios, such as renting versus owning, small gifts versus large gifts, or waiting a few years rather than acting now.

Josh's story reminds us that not all scenario testing will be focused on numbers. For Josh, it's not about affordability. He could easily afford the kind of boat he has in mind, for example, but buying it might not work well for his family—and that matters to him. The goal of scenario testing for him is to find a way for his wife to ease into a more luxurious lifestyle. An alternative regarding the boat is to join a luxury boat club to have access to a range of boats and meet other boaters in similar situations. For the waterfront home, an alternative is to rent for a season or for the year to test it out and see what that brings.

Finally, all significant spending decisions benefit from confirming intention and motivation by articulating the why that drives the desire for the house, the boat, or to make large gifts. When a client is facing competing goals or questionable choices, it's critical to establish a habit of asking why the choice is important. What difference will it make if they take that action? What difference will it make if they do not? Who will benefit and who might be harmed?

Advice and Advisor Teams

Perhaps the most dramatic difference between old-money and new-money clients is in their history of advice, governance, and structure. Both need a team of advisors with various specialties that the average investor wouldn't need. This will not be a new idea to Dianna, but that's not necessarily an advantage in that she will have family members wanting to know what kind of advice she is getting and how she is invested. Old-money families usually have a long history of managing money their own way, so a new advisor or advisors will have to become comfortable with the family team having some presence, even if from the sidelines. Dianna's family and its advisors will be watchful and may be distrustful of her advisors.

Josh, on the other hand, might always be pitched on deals and urged to meet with other wealth advisors; there will be competition for all or parts of his business. It is likely his investment bankers will want the money to stay in-house, which would be the simplest course for Josh, because making a move always takes more time and energy than staying put. But Josh isn't in the habit of taking the simplest course. He got to where he is by doing what he believes is best regardless of the time and energy involved. If he believes you are his best choice, you will get his business.

Advice and Advisor Teams: Giving the Work Back

Dianna will need to find her own style of managing a team of advisors, and she might need help navigating that space. Does she want you to find the other professionals and also manage the team? Does she want to find her own professionals and does she expect them to coordinate with each other? Is she hoping for a collaborative team with a team leader? For Dianna, it may take time and a few mistakes for her to discover what works best.

New-money clients like Josh have a chance to think about how to organize themselves. They don’t have an established structure to follow and they require time to discover what they need and to create it. With liquidity events that create first-time wealth, even successful business owners like Josh are in a whole new arena regarding investing and will need guidance that is different from anything they have experienced. Josh is a novice in a world where sophisticated, complex options are commonplace. He needs an expert to educate him but not to tell him what to do. It’s vital that the expert be a skillful listener and communicator in order to anticipate or respond to what Josh needs to know without being condescending. This is not a teacher-pupil relationship, it’s one of collaboration.

Furthermore, Josh is used to working on his own without his wife’s input, but she’s now a big part of the decision-making process. Advisors Josh chooses must know how to work with a person who appears to be the decision-maker but might not be. They must know that gaining Karen’s trust and providing a process for her to work through her own adaptation is key.

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Summary
Money has two sides—the technical and the personal. They are equally important and equally complex. But it's the personal side that drives financial decision-making. My experience with and study of old-money and new-money clients provides abundant confirmation of this reality, which is finally getting recognized in our industry. The internal work old-money clients need to do is distinct from the work that new-money clients need to do. We need to do more than be cognizant of the distinctions; we need to approach the two types of clients in appropriate ways. We need to have suitable tools and processes for their distinctive perspectives. We need to allow them the time and space to discover who they are and what they value. Only then can we co-create their highest outcomes.

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Endnotes
2. See Bradley (2000).
4. Correspondence by e-mail with James Grubman (June 15, 2016).

References