My 18-year-old daughter will learn of her very substantial trust this year, and I was wondering what book others might suggest I give to her.

This query appeared online to fellow ultra-high-net-worth investors in 1999. The thread of the conversation suddenly took a more desperate turn when several parents and family office executives weighed in with their less-than-successful experiences in preparing the next generation for the responsibility of substantial wealth.

In another online conversation eight years later, the father of three teenage children reflected on the impact of inheritance and trust structures. [Money], if you have it, what do you do with it? You could give it all away, a la Warren Buffett, let the U.S. government take it or ... money can make life a little easier. But it [can] also change or ruin your [children’s] life. You could do a dollar matching up to a point (so that a young person doesn’t have to live in a roach-infested one-room apartment with 10 roommates) or you could create a family bank that lends money for new business ventures or a new home. One thing is clear to me. Money can and often [does] ruin people. So how do you use the money to help people be who they would be anyway and keep from changing the natural course of who they were meant to become?

These online conversations raise four questions that family offices historically have had to address face-to-face:

1. What exactly are our family’s educational goals: Are we trying to teach values, pride in the family identity, or financial and investment literacy—or all of the above?
2. When should this education occur and who should direct it?
3. Is it too late to teach values after the children have grown?
4. What if the next generation is simply uninterested in learning about investments?

Educational Goals and the Family Office

High on the list of anxieties of wealthy families is the concern parents have for the well-being of their children. Hausner’s *Children of Paradise* was the first to identify spoiled children lacking motivation and ambition as an affliction that later was coined “affluenza”...

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among ultra-high-net-worth investors. He described three family decisions that were radical for the field, even as recently as 2006 (Lucas 2006, xxii):

1. We decided to base future wealth management decisions and strategies on core family and individual values.
2. We decided to dramatically restructure our investments and the way we interact with our wealth advisors so that our wealth could help us meet our goals, not someone else’s idea of what they should be.
3. We realized it was critical to foster family harmony, strong communications, and wealth management leadership.

The Family Office Exchange^3 also distinguished between owners and stewards, sometimes called generation two or G2, G3, G4, etc., reflecting the different educational needs of various generations served by a family office. Fredda Herz Brown even suggested the term “stewardship” be dropped altogether because it discourages the next generation.^4 Indeed, the “straitjacket of stewardship” has been viewed by many professionals as overshadowing the more pressing goals of gaining a sense of self-worth or finding an identity within a prominent family. Willis (2005) provides a moving account of her own attempts to find an identity beyond the one she inherited.

Often a first step for a family that is developing an educational program is to recognize that the scope of the task goes beyond finance, and that these various needs compete for attention. The education must show “how to hold the next generation accountable not only for ensuring the family’s memory and legacy, but also for managing the gift of wealth that is given personally to them” (Lucas 2006, 58). Or, as Joline Godfrey, founder of Independent Means, put it, “Financial self-defense: Even the most secure children, with access to significant resources, need to know how to connect money and purpose, develop skills to audit the auditor, and acquire economic self-confidence that will serve them throughout life.”^5

When Do We Send the ‘Kids’ to School and Who’s Teaching?

Once educational objectives are better defined, questions such as when should children begin education programs become easier to answer. This then can lead to family governance that promises to assess each individual family member’s unique learning style or educational needs and refrain from a one-size-fits-all approach. Indeed, specialists practice their craft for different ages, and books that include exercises for children are especially popular (see Godfrey 1998; Dungan 2003).

The choice of who should teach financial literacy and investor education raises the issues of teacher bias and parental control. Education should be independent of outside influences and not encourage just one set of decisions or actions. Family offices might question their private bank’s motivations when “free” seminars are offered to the next generation. Financial education offered by the family’s financial advisor can contain unwitting conflicts or unintentional bias. The following are three examples:

1. How would an advisor “teach” philanthropy as a possible goal for the family’s wealth when a gift could be drawn from the assets managed by the advisor and thus mean a lower fee?
2. How would an investment firm “teach” asset allocation when the firm’s expertise is limited to long-only equity or fixed income?
3. How would an advisor “teach” risk management when the advisor’s own firm’s revenue base is threatened by a market downturn and the need to retain (not upset!) clients is paramount?

Ideally, the teacher/facilitator is unrelated to the subsequent sale of a product and uninterested in establishing an advisory relationship—or even maintaining the relationship with the parents. The students properly assume personal responsibility for wealth management. They rightfully accept responsibility for defining financial goals that make sense for them because, as Charles Ellis first suggested in Winning the Loser’s Game, investors are the only true experts on their own needs. If the family office encourages the next generation to take personal responsibility for their own goals for their own wealth, the education can be profound and enduring.

Values Are Caught not Taught

The founder of WealthBridge, Ellen Perry, often tends to stress the importance of parenting over a more formal education and has memorably quipped, “Values are caught not taught.”^6 Many families sense this to be true, bemoan opportunities lost as their children mature, and wish they had instilled a stronger work ethic or other value. One investor sadly confided to me that his children had a sense of entitlement that made him feel he had failed as a father. Other practitioners might offer a slightly more optimistic view based on their work with the next generation of prominent families and findings that values clarification can be exciting work for a young adult (see Budge 2008).

Sharna Goldseker of 21/64, a nonprofit consulting division of the Andrea and Charles Bronfman Philanthropies specializing in next generation and multigenerational strategic philanthropy, uses a deck of “value cards” with groups of young people. Deciding which value out of many “cards” is most important and describing why quickly engages the entire group.

What if Students Fall Asleep or Play Hooky?

Experiential education is more engaging and fun than reading a textbook or listening to a lecture (Schenck 2008). But experiencing the ups and downs of the securities markets is best done without real money. The folly of market timing is most convincing when investors
try it—and better yet when they do so without their own money. Such case study formats or investment games give students a chance to experience different scenarios, make decisions that have consequences, and learn lessons that stick.

Excellent experiential learning engages students because they are safe and free to compare notes. They can share less-than-positive experiences: how they felt stupid or in the dark, how awkward or ill-equipped they were at a meeting of family advisors. These students will ask more questions because experiential education takes place in a safe environment, not the real world of parental disapproval or family pressures.

Changes in attitude and behavior are essential goals of this education. Hausner and Freeman (2009) offer a comprehensive checklist of these goals, which includes the ability to calculate and analyze personal net worth and create a personal balance sheet. Independent educators welcome accountability and they will measure results and regularly report to the family office.

Ultimate Purpose of All This Education

In an online community post, one investor eloquently expressed the ultimate purpose of all this education:

We told our two children when they were about 12–14 years old that they did have some trusts. We did not give the amounts, but told them they were most fortunate and their trusts would guarantee their education and an opportunity to live a nice life. BUT, they were expected to study hard, plan an occupation, and begin thinking how they would give back to the community. We stressed that a life with no purpose is the recipe for disaster and great unhappiness.

Of course, they already knew we had money. We did live beneath our means, but lived nicely. Many people that we knew lived lavish lives, the parents were busy traveling, entertaining, shopping, etc. The children were left at home with nannies, maids, etc. But, we spent a lot of time with our children on a daily basis. They knew that we cared about their future and I think they strived to live up to our expectations.

They never asked, “How much am I worth?” If they had, I would have answered, enough, but you will have to work hard in school to be able to hang on to what you will inherit!

Happily, I can report this approach worked for our family. Both children are happy, purposeful, and they work!

Too much knowledge at a young age is counter-productive. As they age they will be ready for more information. My children did finally ask at about 19 years of age what some trusts were worth, and I told them. But, by then, they were well on their way to productive lives.

How Advisors Can Help

An advisor who asks the right questions will earn the family or family office executive’s respect. Here are three to start with:

1. Can I be of help in writing down the actual learning objectives or detailing a timetable?
2. How motivated are the “students,” and if not very, how might I assist you in making this undertaking more fun and engaging?
3. Would you like me to give you online resources or names of talented teachers?

The individuals cited in this paper include talented teachers, and as this education continues to grow in importance, online resources will improve and become more plentiful.

Charlotte B. Beyer is founder and chief executive officer of the Institute for Private Investors, a private membership organization offering noncommercial investor education and an online community to 1,100 ultra-high-net-worth investors from 18 countries and 40 U.S. states. In 2004, she founded the Investor Education Collaborative, an affiliated but separate company from IPI. Contact her at charlottebeyer@memberlink.net.

Endnotes

1 Online communities are active within many investor membership groups such as Family Office Exchange and the Institute for Private Investors (IPI). The strings in this article are excerpted from the IPI online community on Memberlink® (1999–2009) and reprinted with permission of the investors.

2 Lee Hausner is widely recognized along with Judy Barber, Eileen and Jon Gallo, Joline Godfrey, Fredda Herz Brown, Kathryn McCarthy, Ellen Perry, and Roy Williams for work with family offices in the earliest days of creating education programs for wealthy families. The term “affluenza” was coined by John de Graaf and Thomas H. Naylor to describe the American problem of overconsumption in the 2001 book, Affluenza: the All-Consuming Epidemic.

3 Family Office Exchange (FOX) serves as an independent advisor to families of exceptional wealth, offering an education on complex financial issues and guidance on the selection of appropriate advisors (www.foxechange.com).

4 Fredda Herz Brown is a principal with Relative Solutions, a family business consultancy (www.relative-solutions.com), who first suggested this during a session on October 8, 2009, at the Institute for Private Investors Fall Forum for Investors in New York City.

5 Independent Means Inc. provides financial education and information for financial institutions and advisors, affluent families and family offices, and private schools (www.independentmeans.com). This was Ms. Godfrey’s description of her one-hour session at the Institute for Private Investors’ Winter Forum held on February 8, 2010, in San Francisco.

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Wealthbridge Partners offers bespoke learning, holding programs directly for families and through select institutions (www.wealthbridgepartners.com). The author heard Ellen Perry say this on October 21, 2009, at the Family Office Exchange Fall Forum.

REFERENCES


