

## Other Voices

Views from beyond the Barron's staff ■ by Brian Luster and Steven Abernathy

# Preparing for Inheritance

WEALTH MANAGEMENT USUALLY COMES IN TWO parts: financial planning to increase and manage your wealth, and estate planning to protect and pass the wealth along to heirs with as few taxes as possible. Unfortunately, 70% of family wealth is destroyed by the second generation, and family unity is destroyed right along with the wealth. After three generations, the loss of wealth exceeds 90%.

Some families, however, thwart lost fortunes and family dysfunction by adding a third component to their wealth management strategy: They prepare their heirs to receive an intellectual inheritance as well as a financial inheritance. When heirs are brought into a family's stories, traditions, and values, they can better relate to their past and become better stewards of the family's capital.

The "shirtsleeves to shirtsleeves in three generations" saying is so true that nearly every culture on the planet has some version of it, including a 2,000-year-old Chinese proverb. It says the first generation works hard to create a fortune; the second generation enjoys the spoils of that fortune, substituting entertainment for hard work; and the third generation, with no role model to follow, squanders what remains of the fortune. Their children have to start all over again.

What is to blame for the destruction of wealth, and why do so many families experience it? The culprit is not poor investment strategy, nor should people be quick to blame economic downturns or bad markets.

Roy Williams and Vic Preisser, authors of *Preparing Heirs: Five Steps to a Successful*

*Transition of Family Wealth and Values*, collected data from 3,250 families who had lost their wealth. Less than 3% said poor planning and investments caused their reversal of fortune. Instead, 25% said heirs were unprepared, and 60% fingered lack of communication and trust in the family.

The consequences of neglecting intellectual legacy can be seen in the families who ignored it, such as William Henry Vanderbilt's heirs. Their fortunes could be worth over \$300 billion in today's dollars. However, by 1973, in just two generations, not a single heir was even a millionaire.

Smart financial, tax, and estate plans alone do not create good stewards of wealth. The senior generations must educate their heirs about the legacy they are about to inherit. When a family unites around its accomplishments and civic engagement, it has a better chance to preserve the family fortune and the family bond.

What are families that perpetuate wealth across multiple generations doing differently? They talk to one another. This offers heirs an understanding of their predecessors' values, responsibilities, and choices. Such conversations can be quite a powerful and moving experience for all members of the family. The family story may reveal ideals, beliefs, values, and shared visions that might otherwise have been left unsaid. It also allows the family to nurture a common vision to support a common purpose for generations to come.

Family meetings, occurring at least once a year, should be part of the family's sched-

ule. The goal of these gatherings should be to promote family harmony. Each family member should try to provide all of the others with the moral support needed to live a meaningful and fulfilled life. Annual meetings of the family can foster communication, create a shared experience, and encourage growth. When regularly scheduled retreats become part of the family calendar, the generations can share ideas, make plans for the future, work on activities, and even have fun together.

Money should be the means, not the end, of a family's collaboration. Eventually all principal family advisors—legal, tax, and financial—should receive a copy of a "heritage statement," a formal rendition of the family's story, values, and vision. As it is updated, the advisors should receive these changes.

A heritage statement should sharpen the family's vision because it must be shared outside the family. A clearly defined vision aligns the advisors' recommendations with the family's goals, beliefs, and values.

With dedication and commitment to the heritage design process, practiced in step with savvy financial and estate planning, a family can increase its chances of maintaining wealth rather than destroying it. ■

BRIAN LUSTER and STEVEN ABERNATHY co-founded the Abernathy Group II Family Office, which counsels affluent families on wealth management.

OTHER VOICES essays should be about 1,000 words, and e-mailed to [tg.donlan@barrons.com](mailto:tg.donlan@barrons.com).

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