

TESTING FAMILY AND WEALTH MANAGEMENT ADVISOR ASSUMPTIONS

For families and their wealth management advisors, assumptions may be understood as “the taking of something as being true, for the sake of argument or action” (*Shorter Oxford English Dictionary*, 5th edn, vol. 1, Oxford: Oxford University Press; 2002 p. 136). However, with regard to assumptions, families and their advisors differ in two important ways:

- first, how and when assumptions are articulated; and
- second, what actions are taken (or not taken) based on the assumptions.

Advisors in the wealth management field often think about assumptions as elements of fact patterns identified during in their initial client assessment.

Families may not even think about assumptions until a trigger event brings potentially conflictive needs, expectations and beliefs into focus. Many families see discussing assumptions as taboo either because of shame or an unwillingness to be disrespectful.

Trigger events, transactions, and transitions

As Jay Hughes, author of *Family Wealth; Keeping It in the Family* (Princeton NJ: Bloomberg Press; 2004) notes, many advisors initially focus on transactions that address specific trigger events rather than the broader context of ongoing transitions, which comprise the family’s experience. Such a trigger event usually provides the advisor’s introduction to the family system, for example:

- An attorney drafts a shareholder or a prenuptial agreement.
- Sale of the family’s original operating company provides financial advisors with the opportunity to design an asset allocation plan to help the family maximise a return on the financial capital generated by the sale.
- More broadly, a wealth management team creates a plan to minimise

estate tax liability and perpetuate wealth over several generations.

Families are constantly in transition: from birth to death; from one generation to the next; from an entrepreneurial venture to a family business to a business family; and eventually from new wealth to old wealth.

Trigger events such as death, divorce or the sale of an operating company bring the advisors directly into the middle of a family’s life. The transactions those advisors complete either in preparation for or in response to the trigger event often have far-reaching effects throughout the family system.

Frequently family clients and their advisors do not know how to accurately identify and interpret assumptions that have not been articulated. The impact of a single transaction, such as the creation of a series of trusts to safeguard financial assets, may impact beneficiaries of those trusts for generations in ways that the trustor and his or her advisers do not anticipate. In part, they may not have thoroughly tested assumptions about the family and the impact of this kind of transaction on the wellbeing of its individual and collective members. Although it is hard to see two or three generations into the future, multigenerational families and their advisors can create a model to test assumptions that will help them build strong, flexible governance structures that support a diversity of lifestyles and business and philanthropic activities for generations to come.

Testing historical assumptions

Many advisors now routinely create a family genogram for their multigenerational, multibranch family clients. The genogram, a form of family tree, may be a tool for testing assumptions based on historical data. By understanding the patterns of behaviour that a genogram may highlight, both the family and its

If assumptions about wealth are not articulated, specific wealth management transactions that may seem transparent and logical to those who implement them may damage relationships between the beneficiaries

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advisors are able to assess potential threats such as the historical risk of conflict, as manifested by divorce or cut-off within or between family branches over several generations. This may be a good first step toward testing assumptions about the family's ability and willingness to:

- work well as a team;
- manage a wide range of needs and opinions in a constructive manner;
- be effective stewards of the family's wealth now and in the future.

If the client and advisors stop here, they base decisions on past behaviour rather than on the family's potential for evolving and learning from that past. In effect, they risk introducing structures and processes that become a self-fulfilling prophecy that patterns from the past will repeat themselves over and over again. Granted, some patterns of behaviour are worth perpetuating. However, in some cases, one reason why such self-fulfilling prophecies get perpetuated is that families are reluctant to discuss taboo topics that historically gave rise to shame, conflicts or even splits in the family. Consequently, decisions continue to be made based on assumptions that may no longer be accurate or were not accurate in the first place.

In some families of wealth, decision-making control may be concentrated at first in one or two entrepreneurial individuals. For them, maintaining control while minimising estate taxes becomes the tail wagging the proverbial family dog. As future generations multiply in size and diversity, will the same paradigm of concentrated decision-making control be supportive of individuals and family branches? Will that concentrated control have a negative impact on individual self-esteem and productivity, family harmony, and the family's ability to steward wealth for future generations? In a family with a series of interlocking trusts established by such entrepreneurs, those trusts may allow the trustor to control the family and its wealth from the grave. Ironically, they preserve the financial capital while depleting the family's human capital by

providing a stream of income to generations of beneficiaries while depriving them of the opportunity to learn how to manage assets because all decisions regarding investment and distributions are left in the hands of trustees.

Testing assumptions about taboo topics

One way families and their advisors test assumptions about taboo subjects is by examining how individuals, generations and branches talk about and use their wealth. Joline Godfrey, author of *Raising Financially Fit Kids* (Berkeley CA: Ten Speed Press; 2003), notes that children "raised in a never-never land of financial freedom often grow up in a state of suspended reality".

“Assumptions about taboo subjects can be tested by examining how wealth is talked about and used”

Families who want to help their children grow up with realistic assumptions about wealth first need to identify personal, branch and generational assumptions about:

- the value and risk of sharing information about the family's wealth with the children;
- the rights and responsibilities that wealth engenders;
- how to assess and explain an individual or family's level of wealth and the specifics of an individual's inheritance to children, young adults and adults;
- how the family deals with disparities in levels of wealth between spouses, among siblings, between generations and between branches;
- how the family raises children so that they become financially competent adults and loving, compassionate, engaged family members;
- how to respond when people ask for loans or donations;

- how to understand who controls the investment and distribution of the family's assets today and in the future;
- how to explain trusts, what trustees do, and options for what to do if beneficiaries do not like the decisions trustees make.

Thinking systemically about transitions and transactions

Once historical patterns have been identified, the family and its advisors may want to test assumptions about the relationship between transactions and transitions. Jane Hilburt-Davis, co-author with W Gibb Dyer Jr of *Consulting to Family Businesses* (San Francisco CA: Jossey-Bass Pfeiffer; 2003), notes that "systems thinking had its origins in mathematics, physics, and biology, in the 1930s and 1940s. Theoreticians discovered that things as diverse as simple machines, amoebas, the human brain, and a plant cell share qualities of systems, i.e. an organised unit of parts forming a complex whole, with emergent patterns".

Advisors accustomed by training and experience to focus on transactions, and who want to retain multigenerational families as clients, need to learn how to understand the systemic nature of families. In the realm of the family, knowing that every transaction is complexly interdependent with other transactions makes it easier to anticipate the impact of a transaction such as the execution of a shareholders' agreement on family dynamics for several generations. Family business founders sometimes make decisions about business ownership based on the assumption that they love all their children equally, for example. By dividing ownership equally, they may inadvertently set into motion patterns of interaction between active and inactive shareholders that, at their worst, may drive a thriving business into bankruptcy and destroy family relationships within one or two generations.

Testing assumptions in the context of cycles and systems

Individual life cycles, family developmental cycles, business life cycles and

wealth life cycles impact wealth management transactions and transitions.

Understanding that impact helps individual family members and their advisors read the family's emotional barometer more accurately. For example, linking specific trigger events such as death or divorce to individual life cycles and family developmental cycles is helpful in blended families in which the next generation may comprise both toddlers and adults as a result of their parents' multiple marriages.

Not all assumptions that are not articulated are inaccurate. However, it behoves families and their wealth management advisers to keep in mind the potential impact of inaccurate or conflicting assumptions among individuals:

- between family branches or generations;
- between the family and its operating companies;
- between the management and boards of those operating companies; and
- between the family and any of their philanthropic organisations.

When assumptions about wealth remain unarticulated and untested, specific wealth management transactions may seem transparent and logical to those who design and implement them, but may obfuscate roles and relationships among the beneficiaries of those transactions.

Good stewards of a family's financial and human capital test assumptions regularly. This takes time, patience, and an ability to see and understand patterns. Over time, such a process has the potential to become what Peter Senge calls a mental model, which enhances effective stewardship. Such a model incorporates a way of thinking about transition planning, decision-making and problem-solving that acknowledges the relationship between:

- a single human being and a family;
- one generation and the next;
- one branch and another;
- a family and its wealth; and,
- perhaps, ultimately the stewardship of that wealth and preservation of a family legacy.◆

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