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## *Getting Social*

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## *Things Financial*

Last month we took a bird's eye view of wealth creation. This month we look at long-run, wealth preservation. That is, family wealth meant to last well past the life of the wealth creator.

"Shirt sleeves to shirt sleeves in three generations." The old saw refers to a common occurrence: 1<sup>st</sup> generation creates wealth through creativity and hard work, 2<sup>nd</sup> generation remembers how it was made so doesn't squander it all, by the 3<sup>rd</sup> generation the family memory along with the drive, talent and luck that built the wealth are gone. The money is spent (even wasted) until the family fortune is gone.

Last month we listed four steps to building wealth. We focused on the first three for the obvious reason, you first need to *have* savings to grow and preserve.

Still, investing your savings (step 4) is unlikely to grow a personal or family fortune. Only by correctly identifying a major, long-term trend can a fortune be made. Yet they occur only occasionally and once invested in require steadfastly holding on through periodic, violent price swings. We have a few thoughts regarding these trends which we will make the subject of another letter.

Our takeaway this month is that investing is usually about *preserving* wealth. First, by increasing your savings at a rate greater than inflation. Second, by minimizing the politician's ability to transfer it from your pocket to theirs through excessive taxes. Given government's proven excellence at misallocating and generally squandering our earned treasure we have no qualms with energetically seeking the later objective. For those thinking those words a bit harsh (even unpatriotic), a salient fact: 40 years ago US Debt to GDP was 32% today it is 104%. America's debt is \$19 trillion.

The first step to preserving family wealth for generations is simple - decide to do so. Though simple this isn't easy for many of us because it requires the wealth creator (or possibly 2<sup>nd</sup> generation beneficiary) to place some of their personal wealth into a family wealth pool. This often takes the form of a trust. High net worth families with assets greater than \$5 million might use a dynasty trust to aid in protecting and managing the money over generations. Regardless of net worth the Hard Structures needed include: Wills, trusts, estate plan, perhaps a bank account outside the US and a tax strategy. The Hard Structures never provide a perfect solution but are needed. The key though are the Soft Structures.

1 "Seven Stages of Money Maturity", George Kinder, 1999, Random House  
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2 "Your Money or Your Life", Joe Dominguez, Vicki Robin, 1992, Penguin Books  
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Soft Structures are not legally binding but they are the glue that will bind the generations together so that your financial legacy and even family history can endure.

Soft Structures are there primarily to support the critical work normally done by the family's matriarch. Of course the woman could be the main wealth creator but historically it has been the male. The matriarch though is often the lynch pin that determines if the family wealth will endure or dissolve. This is so because she takes on the challenging human relations tasks. The personal, intimate dealings of a child who may feel unworthy of an inheritance, or lack confidence, or lack direction, or struggle with emotional problems.

To be capable of aiding in the preservation of the family wealth, children need to understand basic finance and economics. This requires confidence and emotional stability. Further it requires the ability to integrate and participate with all family members. Historically it has been the matriarch who keeps the family strong by encouraging open communication between all family members, providing ample opportunities for the family to get together to build connection and install the family history, beliefs, attitudes and customs that form an identifiable family culture.

History is rife with stories of the destruction of family wealth from family divisions, dissatisfactions, hurt feelings and the distance that often results. This happens between parents and children but most often between siblings. For some of us this history cannot be reversed but we can start anew because each generation is given its chance to build a family legacy.

What are the Soft Structures that can help a family stay together in relative harmony for generations, enrich its members and preserve its wealth? There are no hard and fast rules but structures that others have found helpful include creating a **Family Council** made up of family members whose job it is to make executive decisions for the family as a whole.

This can be a difficult step for the family wealth creator to accept. Yet every wealth creator will meet his or her creator and that is precisely the time when many

family's run into trouble. The family governance must be participated in by its members before that time occurs if the family is to be prepared for that inevitable occurrence.

Key responsibilities of the family council may include:

- Drafting a Family Mission Statement
- Overseeing the investment committee and monitoring performance of family investments
- Managing family estate planning
- Overseeing family property
- Resolving family conflicts
- Managing strategic and tactical goals of family enterprises
- Organizing activities which strengthen family bonds

Even a small pool of say \$100,000 could be used to focus the family council around. This family bank (trust fund) could be used to support family members with new careers, educations, business ventures or emergencies. Of course, as family money, it needs to be paid back into the family bank for future generations.

In the end, it is not as much about building wealth as it is about equipping family members to lead more productive, more fulfilled, more engaged lives. It is a gift both given and received by all family members.

Sincerely,

Robert J. Boronski, MBA, CFP®

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<sup>1</sup> "Seven Stages of Money Maturity", George Kinder, 1999, Random House 2 "Your Money or Your Life", Joe Dominguez, Vicki Robin, 1992, Penguin Books