Do's and Don'ts of Multigenerational Investing

These Do's and Don'ts offer some basic guidance for managing family wealth over multiple generations. This ranges from simple wealth management where next generation knowledge and involvement may be useful, to multi-generational families with substantial family wealth planning resources and requirements. Some families may have already established a formal family office to administer wealth management, while others may be at an earlier stages where wealth management is still relatively informal. In this Do's and Don'ts we reference family offices but it also serves earlier stages of wealth management. As we note further on, you cannot know when you will no longer be able to manage the family wealth yourself. Laying the groundwork for a more developed and sophisticated form of family wealth management is simply prudent.

DO:

Do include the next generation (as soon as feasible).

Devote time and resources to the next generation's (NextGen's) investment and estate-planning education. This includes family office structure, decision-making, governance and wealth planning. Your wealth will be better stewarded if the younger generations have a grasp of how multi-generational wealth management operates.

Where there are multiple generations or more than one family sub-group, do establish and make time for a family council. This will ensure each family group can be represented and offer input.

Open communication is key to ensuring alignment and keeping disparate family units committed to the overall family objectives and strategy. A family council can also serve to keep multiple branches cohesive, helping to prevent future contention. Finally, the council can serve an educational function in helping to ensure the NextGen is familiar with best practices in multi-generational family governance and wealth management.

Do put into writing the family's values and objectives to guide investments, philanthropy and family governances.

Putting this information in writing is a forcing mechanism to ensure clarity of thought and effective family wealth management. This will foster transparent communications and can facilitate discussions on a subject where there is potential for disagreement.

Do decide and communicate what portion of the family's total wealth will be passed to the next generation versus dedicated to philanthropic initiatives ahead of generational transitions.

This will help calibrate expectations ahead of a transition. It could also serve as a catalyst for the NextGen to be more thoughtful about the family's philanthropic strategy and practices.

Do ensure that the investment philosophy of the portfolio is passed on to the NextGen.

A family's investment philosophy and program should be seen as **a long-term opportunity to create wealth, not just to transfer wealth**. The NextGen should recognise the responsibility of stewarding family wealth with a long-term investment philosophy and horizon. This should include an understanding of holistic risk management, the merits of diversification, the pitfalls of market timing and the excess returns that can be derived from illiquid markets.

DON'T:

Don't ignore estate planning (or hold off doing it).

You cannot know when you will no longer be able to manage the family wealth yourself. Unless you have a fully-discretionary family office adviser in place, you may be leaving your family wealth without thoughtful direction. It is best to plan well ahead to avoid a future drift away from your intentions for the family's wealth and help ensure wealth preservation.

Don't split the investment program.

Investment outcomes tend to be optimised when the investment program is constructed and managed in a holistic manner. This includes where there are separate pools of wealth for tax and estate planning reasons. A holistic approach will provide a number of important benefits, including: a) increased access to asset managers (many with minimums that would preclude investments from smaller pools), b) fee efficiency (larger pools qualify for higher break points with asset managers), c) streamlined and coordinated decision-making, and d) enhanced ability to track correlations, skews and over-concentrations that may add unintended and undesirable risk to the overall investment program.

Don't think that the same people who manage estate planning, taxes, asset custody or administration will also be the best at managing your investments.

The different components should be addressed separately. They require independent experts given the varying specialist skills required. Good investment managers know how to coordinate with good estate planners, and vice versa. Delegating all aspects of wealth management to a single firm could result in mediocre investment outcomes.

Don't try to bring the investment program in-house until you are truly ready.

As a rule of thumb, a family would need to have investable wealth of at least $2B to support a professional investment team. This quantum would allow them to effectively build and manage a well-diversified, global multi-asset class portfolio, including alternative asset strategies. While a hybrid program (a combination of internal and external skills) is a possible alternative, top-tier outsourced CIOs are generally reluctant to take on these hybrid mandates. This is due to there being no clear accountability for investment outcomes at the total portfolio level.

Don't just write cheques when engaging in family philanthropy.

Effective philanthropy requires due diligence on the charitable organisation and beneficiaries and active engagement in the charity. Teaching the NextGen about philanthropy can help provide effective future stewardship of philanthropic initiatives. You should be clear on the mission(s) you align most closely with and should have a keen ear for the views of the NextGen. Be receptive to an open discussion of their values and preferences and guide them to support causes to which the NextGen have a personal commitment. Ideally, allow for at least a small initial philanthropic budget for missions and organisations dear to them.

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