

Changing Lanes

Transition planning for entrepreneurs and family businesses

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with compliments from



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The Fisherman's Philosophy

A businessman at the pier of a small coastal Mexican village complimented a local fisherman on the quality of his fish and asked how long it took to catch them. "Only a little while," admitted the fisherman."

"Then why don't you stay out longer and catch more fish," the visitor suggested.

To which the fisherman answered: "I have enough to meet my family's immediate needs."

"So how do you fill your day," asked the visitor.

"I sleep late, fish a little, play with my children, take a siesta with my wife, stroll into the village each evening where I sip wine and play guitar with my amigos. I have a full and busy life," came the reply.



The businessman was shocked. "I have an MBA from Harvard and I can help you," he exclaimed. You should spend more time fishing and with the proceeds buy a bigger boat. With the profits from the bigger boat you could buy several boats; eventually you would have a fleet of fishing boats. Instead of selling your catch at the pier, you could sell directly to a processor and eventually open your own cannery. Then you would control the product, the processing and the distribution. You could then leave this small fishing village and move to the city to run your expanding enterprise. In a few years, you could sell your empire for millions and become really rich!"

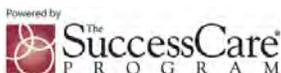
"But then what would I do, sir?" inquired the fisherman.

"That's the best part," smiled the businessman. "You could retire, move to a small coastal fishing village where you would sleep late, fish a little, play with your kids, take a siesta with your wife, stroll to the village in the evenings where you could sip wine and play your guitar with your amigos!"

While versions of this story have been around for many years, they never cease to remind us that, when it comes to putting a value on life and wealth, we all have a different philosophy. We cannot expect others to understand or buy into our philosophy unless we can first clarify it for ourselves and then explain it to them. So the focus of this issue of Changing Lanes is on the third of ten critical things to consider when developing an inter-generational wealth plan as the basis of a successful wealth transition – the need to define, clarify and communicate our philosophy around wealth generation, wealth management and wealth divestiture. 

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What is a Wealth Philosophy?

From reading about the first two elements of a successful wealth transition, you already understand the importance of having an overall PURPOSE for your wealth and the role that defining your PRINCIPLES and values will play in establishing an inter-generational wealth transition plan. Now it is time to assess your PHILOSOPHY around wealth in general, the wealth legacy you want to leave for others, and what you expect from those who will ultimately benefit from that legacy.

A PHILOSOPHY is essentially a belief system. Having a philosophy about a topic is to understand the way you think about the concept and how you applied reason and logic to those thoughts. It is this application of reason and logic to what we believe that helps us understand our reality and live our lives accordingly. It not only becomes representative of our views, attitudes and convictions, but provides a context for all our decisions. It becomes a standard of conduct that can withstand criticism and judgement.

To quote Ayn Rand: "It is a way for each of us to get clarity on some of the most important issues in our lives." For many, nothing is more important than protecting and providing for the future of those we hold dear.

So what is your philosophy about wealth? Are you clear in your beliefs about the purpose wealth serves? Perhaps you believe that wealth is the key to freedom. Or maybe you subscribe to the Carnegie, Rockefeller or Buffett philosophies for wealth. Do you have a logic for determining need and how much wealth is enough? Have you thought about how you want to see your wealth deployed? Are you one of the many parents concerned that their children may not be equipped to handle affluence?

Defining a wealth philosophy is not always an easy task. For most entrepreneurs, the intricacies associated with the disbursement of wealth are far more difficult than managing decades of change and transformation in their operating businesses. To get started, consider the sample wealth philosophies provided or review Warren Buffett's responses to questions asked during the 2013 Berkshire Hathaway AGM – for indeed they say a lot about his personal philosophy around wealth. Then go to page 4 to explore your convictions around the topics provided.

Awareness of your personal convictions will make for more meaningful dialog in the next stage of developing a well-thought out inter-generational wealth transition plan. 

Excerpts from Sample Wealth Philosophies

- The goal is not to give the golden eggs, but to teach family how to look after the golden goose.
- Money is only a tool. It will take you wherever you wish, but it will not replace you as the driver.
- Recurring wealth is like gardening: you enjoy the flowers and then nurture the plant for a while so you can revel in more prolific blooms the next season.
- Take care of your family's material needs. Don't get caught up in making money for the sake of making money.
- Your standard of living is not equal to your cost of living.
- Paying interest on credit cards not only suggests that you are living beyond your means, but it also means that you are losing money.
- Spend, save, give.
- I have a personal sense of responsibility to leave the world a better place.

What Warren Buffett Thinks

- More of our kids are ruined by the behaviour of their parents than by the amount of the inheritance.
- I will rewrite my will every five or six years...Every time I rewrite my will, my kids are happy, because they know I am not reducing the amount.
- Your children are going to read the will someday...It's crazy for them to read it after you're dead for the first time. You're not in a position to answer questions — unless the Ouija board really works.
- I do think it is very important in wealthy families once the kids are a certain age...they should be participants in the will.
- I do think that if you're very wealthy...the money has far more utility to society than to create a situation where your kids don't have to do anything in life except call a trust officer once a year and tell him how much money they want.

Answers to questions posed to Warren Buffett at the 2013 AGM for Berkshire Hathaway

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The Paradox of Wealth

As illustrated by the story of the fisherman, wealth and freedom can be considered mutually exclusive by some people and completely reciprocal by others. In many minds, wealth brings freedom; the result of having money to live the way they choose. For others, the pursuit of wealth creates a dependence on money. They see a paradox in that the wealthier they become, the more freedom they lose!

In their quest to uncover why 70% of wealth transitions fail, Williams and Preisser asked 3,250 sets of affluent parents what worried them most about the effect wealth might have on their children. The top 12 fears listed in their book "Preparing Heirs" illustrate the potential for both financial and non-financial repercussions of being raised with, or later inheriting, considerable wealth.

Also exposed in this list, unintentionally perhaps, is insight into the many philosophies held by these affluent parents. Readers may get the impression that these purveyors of wealth feel that – without intervention – their values and philosophy will not be reciprocated in subsequent generations. Given that historically 70% of wealth transitions fail, the stats would appear to support that rationale.

As you define your wealth philosophy, be sure to consider both the benefits of using your wealth to further your beliefs, and the potential negative impact substantial wealth can have on those unprepared for the responsibility. In addition to

examining your convictions for the topics outlined on page 4, we recommend you read the Williams and Preisser book "Preparing Heirs - 5 Steps to a Successful Transition of Family Wealth and Values". We are certainly available to assist you with the suggested activities, with defining your wealth philosophy, and/or with finding alignment of PURPOSE, PRINCIPLES and PHILOSOPHY between generations. 

What worries affluent parents most about the effect of wealth on their children:

1. Too much emphasis on material things
2. Naive about the value of money
3. Spend beyond their means
4. Have their initiative ruined by affluence
5. Not do as well financially as parent would like
6. Not do as well financially as parent did
7. Hard time taking financial responsibility
8. Resented because of their affluence
9. Suffer from parent not being around
10. Date or marry someone who wants affluence
11. Limited exposure to non-affluent people
12. Feel they have big shoes to fill and will fail

Source: *Preparing Heirs*. Roy Williams / Vic Preisser

The Third of the Ten P's

In the first and second articles in the series of **Ten P's for a Successful Wealth Transition**, we discussed the importance of aligning all stakeholders with the same sense of **PURPOSE** around managing wealth and then establishing common **PRINCIPLES** for developing an effective inter-generational wealth transition plan – principles that will act as a point of reference along the journey.

The third element in the wealth transition process centres on the need to clarify and communicate a common **PHILOSOPHY** around future wealth creation, management and distribution – a philosophy that both generations buy into. (Getting that alignment will be the focus of the fourth article.)

Completing all ten steps in the process will better enable you to achieve your goal of preserving both wealth and family unity. For an overview of all Ten P's, refer to the first article in the series.



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Define Your Wealth Philosophy

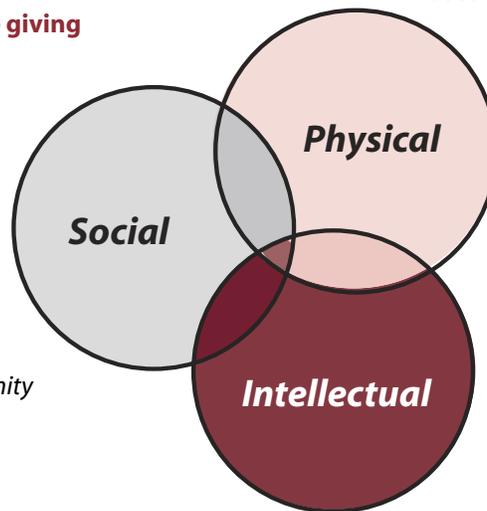
To define your philosophy, consider your views or convictions on the following topics and then answer the questions as they pertain to the three areas of an Inter-generational Wealth Transition Plan. We encourage you to contact us if you need some guidance.

- **Investment and reinvestment philosophy**
- **Lifestyle needs versus discretionary spending**
- **Financial independence**
- **Philanthropic versus charitable giving**
- **Fair versus equal**
- **Merit versus entitlement**

Empathy and Support for Others

Consider the role you want your wealth to play in providing for:

- Immediate family members
- Extended family members
- Friends and neighbours
- The less fortunate in your local community and beyond



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Governance of Family Wealth

To ensure your wealth base is preserved and protected, clarify your beliefs around:

- Who will inherit the wealth
- The need for financial independence for all
- Spending, giving and saving
- How the wealth should be invested
- How people exit the ownership pool
- What constitutes a fair distribution of wealth

Management of Family Wealth

Define your criteria for determining who will be entrusted with the preservation, protection, management and disbursement of the family wealth:

- What that role might entail
- What qualifications will be required to carry out the role(s)
- How compensation for the role(s) will be determined
- How investment and reinvestment decisions will be made

Make it Conscious

According to the late philosopher, author and actress, Ayn Rand, we have two choices in life:

We can either define our philosophy by a conscious, rational, disciplined process of thought and scrupulously logical deliberation ...

Or let our subconscious accumulate a junk heap of unwarranted conclusions, false generalizations, undefined contradictions, undigested slogans, unidentified wishes, doubts and fears thrown together by chance, but integrated by our subconscious into a kind of mongrel philosophy and fused into a single, solid weight called self-doubt, like a ball and chain in the place where our mind's wings should have grown!

It takes a lifetime to shape a philosophy. You now have the opportunity to gather all your beliefs into one picture and share it with those around you!

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