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Your Money, Your Dreams, and Your Heirs, Part Two

In this letter, we will address some of the pitfalls, obstacles, and solutions related to creating a plan to prepare your heirs for an eventual transfer of wealth.

Recalling the plight of the Vanderbilts, let's instead reflect on a family whose wealth story ended much differently. Whatever you know or feel about John D. Rockefeller, his legacy was more successful than that of Cornelius Vanderbilt. Rockefeller's later generations became reputable philanthropists and successful politicians. The family is still estimated to be worth around $11 billion. John D. Rockefeller died in 1937, so how is it that their family money has lasted?

It's All in the Preparation

Preparing the next generation to receive wealth is the critical third pillar to successful wealth transfer. Preparation requires basic elements to start the process: determining common family values and telling your family's story.

Let's first consider family values. At Vista, we ask our clients to provide details about their upbringing, recalling their family's and their own perception of money when they were younger. We also ask our clients what values they consider to be most important in their lives today and for their family going forward. Many clients consider honesty, integrity, love, and hard work (among others) as values that are most important to them. For us as financial advisors, understanding your values is critical to financial decision making. We use client's values as a guide to help them make prudent financial decisions that are in line with their value system. For example, if you value simplicity, we might not recommend purchasing multiple rental properties for income despite its merits as a potential income generating source.

One concern with children is ensuring your value structure is property instilled and passed to the next generation. It’s tough saying no to our friends and children when they probably know that money isn’t the reason behind “no”. These situations can be exponentially more complex when children grow up in free spending environments. As the leaders of your households, you may be having conversations about your finances (and having conversations with your financial advisor) but your children will likely only pick up on the spending pattern and not the meticulous planning happening behind the scenes.

When children are young, they can quickly learn and adapt to the value structure you outline. As they mature, there may be opportunities to discuss the meaning and rationale behind those values. As they do schoolwork, we can help them better understand the value of hard work. As siblings quarrel or when your child is upset with a friend, that may present an opportunity to discuss why honesty, respect, and integrity are important in your family.

As children enter adulthood, consider family meetings as a platform to talk about values. It is often valuable to discuss the successes and failures you had that helped establish your own values. There will be commonalities and differences. Try to focus on the commonalities without making judgements about the differences, record them, and talk about how to promote the values that best represent your family. Those commonalities are the nuggets that will be the basis for your family’s values for perhaps generations.

Once your common values are defined, you can work on a vision for the future. Where do you want your family to be in 10, 20 or 30 years? What will keep everyone together and collectively working toward the family goals? Writing a vision for your family’s future can help guide your value structure for decades. It is critical to outline principles and desires surrounding your wealth, for example:

- Maintaining discretion, or
- Taking full advantage of the luxuries you can afford, or
- Ensuring future generations have enough to pursue their interests, or
- Using money to make positive change in the world through medicine, politics, the arts, or education.

Many families want a portion of their wealth to impact more than just their immediate family. Various foundations and other charitable vehicles are typically included in the conversations. That said, every family member and generation needs to first individualize their inheritance and purpose. Empowering individual family members to ensure they are confident in their own pursuits helps lead to more responsible money management. It’s essential not to put the world at large ahead of individual needs, and it can be a counterproductive exercise until each person’s individual needs are defined and funded.

Next, we should focus on discussing your family history in order to help others make a deeper connection what they will receive. How did your family acquire its wealth? We consistently hear clients say they consider themselves to be blessed. They have a desire to live well and to help others. But, while it’s easy to talk about your successes, it is even more important to talk about your failures. We all have them, and while some wealth may be attributable to luck, most wealth was accumulated from hard work and learning from our mistakes. It’s important for your heirs to understand the time, energy, and effort that went into creating your wealth. The more you can project and emphasize gratefulness and gratitude for where you are today, your heirs will have a better foundation on which to construct their own money story. Although it can be difficult to talk about money, and specifically money failures, your heirs need to hear about them. Connecting what will eventually be their money to your shared values, work, and dreams tends to limit any sense of entitlement your heirs might feel.

Bucks and Brains

What if your heirs are already adults and you feel like you haven't done enough to prepare them? Is it ever too late? Are there family problems solely because of money? If so, what did money have to do with it?

We can tell you upfront that rich families have the same problems as the rest, but as we have said, money tends to be an accelerant. Tenuous relationships become worse. Substance abuse problems involve more expensive drugs or liquor. Extravagant spenders tend to spend more when they inherit. Thrifty heirs, oddly enough, tend to become more frugal (or at least no more than they did before their inheritance).

These tendencies are well detailed in behavioral (and behavioral finance) studies involving both social norms and brain chemistry. In 1978, a group of psychologists (the Brickman study) interviewed 22 lottery winners and 29 paraplegics. Each interviewee was contacted about one year after their winning or misfortune. The lottery winners reported similar levels of happiness before and after winning the lottery. The paraplegics reported a lower satisfaction in life after their paralyzing incidents, but also thought they would eventually return to their baseline level of happiness. This affect has been referred to as the Hedonic Treadmill or Hedonic Adaptation. Boiled down, behavior can quickly adapt to match circumstance. Satisfaction, by that metric, is always being chased and seemingly unachievable. It is completely natural to get comfortable with our current status and to want more. When we apply the Hedonic

Treadmill theory to wealth, we find that money itself is not essential to happiness. Lavish spending often leads to more spending, perhaps chasing the feeling that at some point you will own enough or have enough to make you happy. Breaking the treadmill is possible, but requires additional work around your values and goals. For example, deciding to forgo the new vacation home is easier if it doesn't align with your value of living more simply.

The brain has been well-studied in relation to behavior. Thanks to the rapid development in medical technology, we can pinpoint neural responses to specific areas of the brain. For example, the amygdala and pre-frontal cortex react very differently in response to stimuli, including money. The amygdala helps determine our fight or flight response. It is located at the base of our brain and is thought to be one of the earliest developments of our nervous system. It's regarded as one of the key features of the homo sapiens species that helped us survive because it is constantly filtering information that comes to us and regulating our responses: fight or flight. Its decisions are quick and basic: approve or argue, run or fight, submit or avoid. When talking about money, this area of our brains can often be the first to trigger high emotions or heated arguments. Its counterpart to some degree is the prefrontal cortex, which is an area in our foreheads. This area of our brain often does not fully develop until we are well into our 20s. Its core function is to reason and consider our decisions and how they might affect our future. This is the area we want to engage when we are discussing money.

How can we frame discussions and conversations to avoid the emotional and reactionary amygdala and engage the rational, thoughtful prefrontal cortex? If we ask someone short questions that start with "Why", such as "Why did you spend over $10,000 on Amex this month?" we have a high probability of dealing with that person's amygdala. The response will probably be defensive and may be emotional. If instead, we say "I noticed that the Amex bill was higher than usual this month", we have a higher probability of getting a thoughtful and reasoned response from the prefrontal cortex. In family meetings, it is important to keep everyone as well-reasoned as possible. We all know how emotions can run high when talking with those who are closest to us and a little bit of rephrasing can have a drastic influence on a discussion's outcome.

Ultimately, having conversations about wealth isn't just about gathering family occasionally to discuss money. Instead it's about setting up a system that engages both our genetic predispositions and allows space for the entire family to build a shared value system. Heirs can then make individual and joint decisions that are more thoughtful and probably less spontaneous. And, most importantly, by defining values and goals that are larger than the current generation, families can become empowered with their wealth rather than overpowered or manipulated by it.

Bringing it Home

We have just barely scratched the surface in these letters (please forgive us if you think we didn't go far enough in any particular area). The real purpose has been to broach the subject that directly impacts many families. The topics and solutions discussed represent a summary of the many factors that influences all wealthy families. Just about every sentence could have been greatly expanded upon in its own piece.

For further reading, we recommend two books to start:

- **Endless Inheritance, Moving from Feuding to Flourishing in Your Affluent Family** by Richard Del Monte (2015) – written by a family coach who is based here in the Bay Area
- **Intentional Wealth, How Families Build Legacies of Stewardship and Financial Health** by Courtney Pullen (2013) – written by a psychologist who has extensive experience in counseling families.

These books contain a lot more detail as well as exercises to help you and your family feel more empowered by wealth.

Of course, your Vista advisors always look forward to assisting as well. If there are areas you want to explore further, please let us know.

Thank you for the trust you've placed in Vista and Happy Thanksgiving!

Your Vista Wealth Management Team