CLEARPOINT

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GREGORY Q. LONCZAK, CFP®, MANAGING DIRECTOR

FAMILY TRANSITIONS: STARTING THE CONVERSATION

BY GREGORY Q. LONCZAK, CFP®, MANAGING DIRECTOR

At Clearstead we have the privilege of working with amazing families. Some of the most challenging questions they pose are not about investments, tax strategies, or balance sheet items, but about how to keep family legacies and cohesiveness intact. These questions range from transferring the family business to preparing the next generation to inherit wealth. Many financially successful families also want to foster responsible family members who are strong citizens, and frequently ask how best to accomplish this task.

These are some of the most common questions we hear:

- How do I teach my children and grandchildren to be good stewards of our family's capital?
- How do we keep our family's financial means from spoiling our children?
- Our children view our family's wealth differently than we do; how do we keep this from dividing us?

For children, family wealth can be a double-edged sword. Wealth introduces positive things: educational opportunities, travel and exposure to different cultures, and freedom from worry about commonplace costs. However, wealth

CLEARSTEAD HOSTS NEXT GENERATION WEALTH ROUNDTABLE

On Thursday, September 12th, Clearstead will host a ClearPoint Roundtable Discussion on the transition of wealth to the next generation.

The Roundtable is entitled *Investing in the Future: Preparing the Next Generation to Sustain Family Wealth*. It will be led by Mr. David Osborne, the current CEO of David Osborne Advisors. Mr. Osborne will lead a panel of six experts in family wealth and transition – attorneys, trust officers, money managers, and advisors – in discussing the complexities of transitioning family wealth to a younger generation as well as what environmental, technological, and financial factors may affect those transitions.

The Next Generation Wealth Roundtable is the third subject-matter discussion Clearstead has hosted. The first two were held in October of 2018 and February of 2019 on discretionary management (OCIO) of institutional portfolios and ESG investing, respectively. The summaries of each of these Roundtables can be found on the Clearstead Blog.

also introduces worries about children being overwhelmed by managing their inheritance, concerns that wealth will isolate children or make it difficult to form strong personal relationships, and worries that children will grow up feeling entitled or less motivated to pursue meaningful work.

While many families are not shy about enjoying some of the material goods that their financial success allows them, they are shy about the critical conversations and lessons that should be taking place within the family. At Clearstead, we believe these conversations are critically important, and not simply about a family's financial capital, but also around a family's intellectual, social, and cultural capital. These conversations prepare heirs by engendering communication and building trust within families and between generations.

RECOGNIZING DIFFERENCES

Wealth creators generally are aware of the true value of money. Upon leaving behind the occupation that created the wealth, they often dedicate equal attention towards the growth, protection, and sustainability of this wealth for their community and family members. These values often are more difficult to pass to the next generation than the wealth itself. The vision, work ethic, and values of the wealth creator might not be shared by their children and grandchildren, who have grown up in a different time and different environments, and with different levels of opportunity.

GENERATIONAL DIFFERENCES

Most individuals who control wealth in this country likely belong to one of three generations: Traditionalists (those born between 1925 and 1945); Baby Boomers (1945-1965); and Generation X (1965-1980). The recipients of this wealth transfer are likely to be Generation X, Generation Y "Millennials" (1980-1995), and Generation Z (1995-2015). Each generation has been shaped by events that have driven attitudes towards everything from faith and community to patriotism and finances. According to Lynne C. Lancaster and David Stillman in their book, *When Generations Collide*, "The events and conditions each of us experiences during our formative years determines who we are and how we see the world." This statement is especially pertinent to differences within families as to their behaviors, interests, and perception of wealth.

The takeaway is to highlight the differences for both senior and next-generation family members, so all parties can have a better understanding as they start their conversations.

FAMILY CONVERSATION STRATEGIES

The process through which we steer families includes three types of family conversations: 1) sharing a family's values and principles of wealth, 2) providing background and the current conditions of the family's wealth, and 3) family meetings.

The first conversations any family should have are on the values and principles that have been at the center of the family's wealth creation and sustainment. These discussions can happen from a young age and are often best if brief, informal, and occur around "teachable moments" in a child's life.

For young children, these lessons could come in the form of play or family stories, rather than conversation. For school-age children, parents could provide an allowance to give children the ability to manage small amounts of money and prioritize needs versus wants; learning the importance of saving for a larger purchase or possibly sharing with charitable institutions. Parents should also look for teachable moments where they can demonstrate how the family makes decisions about spending, saving, and giving.

For older children, it is important to talk in greater detail about factors that go into financial decisions and prepare them for how the family's wealth may affect their lives. These should not be conversations about dollars but rather what those effects are and the choices he or she will face in the future. To be effective, these must be two-way conversations where children are encouraged to express their own goals and ask questions, without judgment.

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As a child ages, discussions should begin to turn more informational and provide the child context around the family's wealth. We feel that many next generation children desire more information during their college years. Early information sessions can be about direct access assets that the child has in his name, such as individual accounts, 529 accounts, or custodial accounts. The next inflection point is often college graduation and may be a good time to provide further information on the indirect access assets and their structures, such as assets in trusts or shared family entities (FLP, LLC) for which the child may not have sole or any decision-making responsibility. It is often best that these discussions occur over several phases.

Family leaders often feel nervous telling children how much money is coming to them – and when. They worry that the knowledge of wealth may have a negative effect on their children's ambition or drive. That is why the conversation cannot stop at net worth or inheritances.

As the next generation begins to grasp the roles, responsibilities, values, and principles of the family, the final phase in the conversation is often holding planned family meetings. Family meetings are events that can help set long-term goals, ensure transparency, define roles, and help family members connect across generations so they understand the responsibility and management of wealth. The most successful sessions take on focused issues and are carefully planned to include the family and the advisory team. To ensure the most from family meetings, an agenda, a location that fosters collaborative communication, ground rules for being open to other ideas, and proper follow-up are important.

At Clearstead we have a long history of advising families and guiding them through these challenges. We have tools to help foster family conversations and facilitate family meetings. As such, we are ready to share our experience and counsel with any of our clients who are preparing for this next chapter in their family's story.

MARKET BENCHMARK RETURNS

July 31, 2019		1M	3M	12M	YTD
US Large Cap	S&P 500	1.4%	1.7%	8.0%	20.2%
US Small Cap	Russell 2000	0.6%	-0.7%	-4.4%	17.7%
Developed Intl	MSCI EAFE	-1.3%	-0.4%	-2.6%	12.6%
Emerging Intl	MSCI Em Mkt	-1.2%	-2.7%	-2.2%	9.2%
Real Estate	NAREIT	1.6%	2.7%	12.4%	19.8%
Core Fixed	BarCap Agg	0.2%	3.3%	8.1%	6.3%
Short Fixed	BarCap 1-3Yr	-0.1%	1.2%	4.1%	2.6%
Long Fixed	BarCap LT G/C	0.7%	7.8%	14.4%	14.3%
Corp Debt	BarCap Corp	0.5%	4.3%	10.1%	9.9%

Source: Bloomberg

The performance data shown represent past performance. Past performance is not indicative of future results. Current performance data may be lower or higher than the performance data presented.