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OPENING UP THE KIMONO

Helping families address the challenges of inherited wealth

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Some of us believe that the financial records we send to our clients rarely reflect their most important asset.

True, we constantly work to preserve our clients' wealth, and we are very proud of Federal Street's investment performance and risk management, especially in these volatile and uncertain times. Our team of dedicated investment professionals thinks of little else. Still, we have come to appreciate the importance of the time and energy we spend on our clients' other valuable asset: their families. Many of our clients consider their families to be their most valuable capital - and they are determined to attend to that capital as carefully as they do the money that pays the bills and supports philanthropy.

Family as Capital. Doesn't that recall the days when children were valued for their ability to work on the farm? Perhaps. But the seeds enlightened parents sow can bear fruit in fulfilled, productive lives that avoid the stereotypical behavior and attitudes associated with children of the wealthy. This is no small task. Having recently reread *Children of Paradise, Successful Parenting for Prosperous Families* (Lee Hausner, PhD, Jeremy P. Tarcher, Inc., 1990), we appreciate the magnitude of the challenge, and admire even more what a great job many of our clients have done as parents.

Talk of money may be the last taboo

In a society that talks freely about sex and death, talk of money may be the last taboo. Children don't want parents to think they are looking forward to inheriting; parents don't want children to take the money for granted and become entitled; family members may feel resentful about decisions. At many large wealth management institutions, staff advisors have little leeway or encouragement to step off the yellow brick road of financial statements and financial transactions to address these "softer" (and more difficult) family issues. Interaction with clients has to fit into a strict cost-benefit formula.



Opening the kimono can happen only when a client feels that their children are prepared to handle a complete understanding of the family wealth.

We, like many other advisors in this field, strongly feel that avoiding the family wealth discussion simply ignores the elephant perched on the dining room table.

Federal Street Advisors, as a specialized boutique, has more flexibility to deal with clients as individuals. We can spend time in ways that add the kind of value that may not be readily apparent to the bottom line. We can spend time working as interested but objective parties in family discussions about money, values, and legacy.

Teaching, guiding and advising the next generation

Over the years, we have helped children in their twenties buy their first house and deal with lawyers and mortgages for the very first time. We have explained the necessity of estate plans and prenuptial agreements to clients' children, and we have shepherded them through the process. We have advised on the simple (what funds to buy in a 401k) to the esoteric (how to set up an animal breeding business). And, in some cases, we have tried to serve as our clients' eyes and ears, to give them honest insights into issues we see, and to suggest ways we can work with them and their children over the years.

Opening up the kimono

Perhaps the most gratifying experience is what we call "opening up the kimono." This is exactly what it sounds like: standing financially uncovered in front of your children, and showing them the good and the bad. (We admit that for Federal Street clients, it is usually pretty good, but it can be humbling nonetheless!) Opening the kimono can happen only when a client feels that their children are prepared to handle a complete understanding of the family wealth.

We, like many other advisors in this field, strongly feel that avoiding the family wealth discussion simply ignores the elephant perched on the dining room table. With the client's direction, we can organize a full family meeting to explain the investment performance, balance sheet and the estate plan, and to facilitate an ongoing dialogue.

Family conversations about money are rarely easy – or comfortable

As Hausner says in her book:

The ability to communicate effectively with your children is one of the most important challenges for every successful, affluent parent. However, your limited time, your occasionally frayed nerves, and your desire to help your child as much as possible, can all get in the way of creating a healthy communication environment. (p. 193).



Sometimes what the next generation can expect is surprising.

We will never forget the prospect with an estimated \$500 million of net worth who replied to his son's remark that "we are rich."

"Wrong," said the parent to his son, "I am rich. You are not."

Helping families talk about wealth is where Federal Street Advisors plays one of its most valuable roles.

The best time for this meeting might be when clients' children are in their early 30's, or it might not be until they are in their 40's. It is a very personal issue that only the clients can decide. But, when it happens, and when they allow us to consult and work with their children over the years, we find that the next generation ends up much better prepared to deal with their futures, whatever that may mean in terms of expected wealth.

And, trust us, sometimes what they can expect is surprising. We will never forget the prospect with an estimated \$500 million of net worth who replied to his son's remark that "we are rich." "Wrong," said the parent to his son, "I'm rich. You are not."

One's legacy is more than the family wealth

We encourage our clients to discuss the heritage they want to leave, as well as the money that will accompany it. More and more clients are supplementing their legal wills with an "ethical will," a document that expresses the experiences, ideas and values that constitute their legacy as human beings. Unlike their legal documents, there is no right or wrong way to write an ethical will, and it can be directed to either a general audience or to specific individuals.

Now Federal Street's specialized and highly personal involvement in issues of legacy and family communication doesn't divert attention away from our primary focus: preserving and growing our clients' wealth. But our expertise and experience with these "softer" but no less important concerns are part of what differentiates Federal Street Advisors from other advisory firms. Moreover, it's a capability that an increasing number of our individual clients are looking for.

We invite you to learn more

To learn more about our approach and experience in family wealth transition issues, we encourage you to visit our website's [Family Office Services](#) section – or contact Randy Hustvedt, Director of Family Office Services, at rhustvedt@federalstreet.com.

We also invite you to visit the Reading List on Federal Street Advisors' website. Our section on [Family and Wealth](#) offers some insightful and thought-provoking writings on this once taboo topic.