

HOW TO FULFILL LASTING PURPOSE WITH FAMILY WEALTH



CENTURA
WEALTH
ADVISORY



HOW TO FULFILL LASTING PURPOSE

THE CHALLENGE

For wealthy families, building an enduring legacy has proved challenging. According to Time Magazine and a study conducted by the Wesley Group, 70% of wealthy families lose their wealth by the second generation, 90% by the third and only 2% of families sustain success for more than three generations.

To understand this problem better, it is necessary to look at the underlying cause. Based on industry surveys of wealthy families, this problem seems to take root in a lack of information and education on family wealth and how to manage it in a sustainable way. In fact, families that run out of money by generation two or generation three do so by consuming assets faster than assets are generated, making a bad bet or two in overly risky investments and seeing financial assets divided due to family conflict, costly lawsuits or divorce.

Any family with a Net Worth above \$10,000,000 is potentially at risk, as managing this level of wealth over time requires sophisticated knowledge and experience. However, a path to prosperity is possible and key components to fulfilling a lasting purpose with family wealth include:

- A unified family Mission
- Strong operational management
- Manageable lifestyle(s)
- Risk appropriate investments, and
- Developing family talent in every generation

1 A UNIFIED FAMILY MISSION

Joint economic interests provide the foundation that allows families to unite around a common mission and purpose, with many successful families taking a long-term perspective on the way they treat their assets, one another and the community. To define family purpose, it is useful to envision future scenarios based on a variety of different possibilities. By modeling potential outcomes, families can gain clarity and insight on what is meaningful and important to them. In addition, creating a family mission statement can help clarify family purpose and serve as a North Star to unified family wealth for generations to come. Author Stephen Covey describes a family mission statement as a combined unified expression from all family members of what your family is all about – what it is you really want to do and be – and the principle you choose to govern your family life. This statement should serve as a vision offering value, purpose and guidance.

2 OPERATIONAL MANAGEMENT

To provide effective operational oversight of your family's holistic financial operations, advisor coordination is paramount. For example, wealthy families typically have a roster of professionals serving them, which includes but is not limited to: Tax Advisors, Legal Advisors, Bankers and Investment Advisors. While this roster of trusted professionals potentially provides a wealth of subject matter expertise individually, effective coordination, oversight, and management of their collective activities is what really drives better outcomes.

3 LIFESTYLE MANAGEMENT

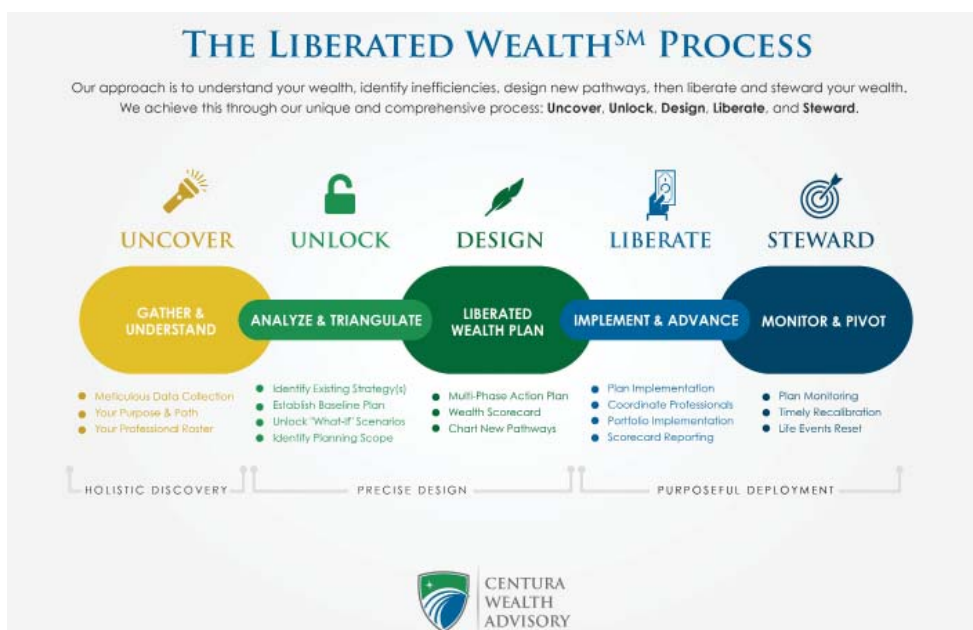
One key to building enduring wealth is managing the withdrawal rate of assets in combination with principal stability on those underlying assets. A sustainable withdrawal rate in the financial planning industry is generally considered to be between 3% and 4% per year, however this rate should be viewed in tandem with the stability of the underlying assets. Unfortunately, poor investment performance for an extended period (sequence risk), and/or poor investment performance combined with elevated withdrawal rates, can have a devastating impact on long term wealth. Thus, integrated cashflow and investment planning are key components of success. A comprehensive model should be utilized to provide both perspective and scenarios.

4 RISK APPROPRIATE INVESTMENTS

To reduce the risk of a non-sustainable withdrawal rate, it is necessary to consider the composition of assets supporting income needs as well as the liquidity and volatility of those underlying assets. Many family's own businesses or other investments, and knowledge of how to work with these different types of assets in the context of investment management, is important. For this reason, it is imperative that families take an Estate level view of asset management inclusive of liquid and non-liquid alternatives as well as closely held businesses and other interests. Moreover, disconnecting the "emotion" from investments is critical to understanding the true cost or opportunity cost of buy/sell decisions.

5 DEVELOPING FAMILY TALENT

To be successful in sustaining family wealth over multiple generations, knowledge must be shared, refined and sharpened over time. This requires family involvement in each generation as well as ongoing education and training. Family members that are interested should become involved, educated and active participants in the long-term planning and execution of their family's lasting purpose. Those who aren't interested can be informed, but best to keep decision making precise with engaged family members.



UNCOVER YOUR FAMILY'S PURPOSE



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