

From Shirt Sleeves to Shirt Sleeves, Part I Preservation

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It is very unlikely that your family's net worth will survive the next three generations. This is true in every country around the world. That is why there is an old proverb in many countries that refers to the family's net worth. In Italy the expression is "from the stable to the stars and back again." In China it is "from peasant shoes to peasant shoes in three generations," and the Scottish proverb is: "the father buys, the son builds, the grandchild sells, and his son begs."

There have been many studies of families that have a high net worth, and those studies have found that about 70% of all families fail to sustain their family wealth across multiple generations. The important point in this research concluded that any mistakes in financial or tax decisions accounted for less than 3% of the failures. By contrast, 60% of the failures were found to result from the lack of communication and trust within the family. In 25% of the families that were studied the family wealth was dissipated because the heirs were unprepared. (Roy Williams and Vic Preissler, *Preparing Heirs*)

Many attorneys, accountants, and financial advisors may be surprised by these facts because they have devoted their careers to designing very technical estate and financial plans for their clients. Unfortunately, we have seen families fight over assets and make bad decisions, and also not talk to each other which leads to more bad decisions. That is why we must all work harder with business owners to try and help the second and third generation understand what the first generation went through and what they learned during their career. For example, in upper New York State the beneficiary of an outdoor advertising business inherited \$14 million, and after taxes he was able to keep \$10 million in 1998. He and his family faced temptations to indulge in expensive homes and toys. After 10 years of bad decisions the assets were mostly gone and the son at age 59 started looking for work anywhere.

Also, in 1999 when Jay Pritzker, the patriarch of the family died, family members squabbled over running the family business. That led to an agreement in 2001 to break up the business empire which included at that time the Hyatt hotel chain, the Marmon Group, a conglomerate of manufacturing and industrial service companies, TransUnion Credit Bureau, and the Royal Caribbean Cruise Lines.

Working hard, running a business or developing a successful career takes time and a lot of mistakes are made along the way. The older generation learned from every one of those mistakes and somehow that information

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needs to be taught to the children and grandchildren or they will be destined to make the same mistakes. For example, the Beretta family has been making firearms in Italy since 1526. Ugo Beretta, who is 70 years old, runs the company today. His 43 and 45 year old sons work closely with him in running the family business. Ugo is the 15th generation to run this family business and he is working hard to make sure that his two sons continue to run this family business successfully for many more generations.

Over the next 50 years the greatest transfer of wealth in history will happen. At least \$41 trillion dollars will pass to the next generation. The young adults that will be receiving all of those assets need to understand how to manage, grow, and protect those assets for their children. The successes that the older generation has had during their career leaves clues that the younger generation need to study and understand.

John F. Kennedy once said: "To those whom much is given, much is expected." The next generation that will be receiving these assets need training and guidance so that they have a fighting chance to retain the assets that they inherit for future generations. Parents and grandparents that have the accumulated knowledge need to think of ways to pass on their knowledge and values as well as their valuable assets to their children and grandchildren. Too many wealth accumulators simply pass on their assets through their Wills and Trusts without passing on the accumulated knowledge that it took to create that wealth.

We plan to write more articles on topics that the older generation should consider and we will definitely cover ideas that the next generation needs to study and absorb.

Gary Pittsford, CFP®, is President and CEO of Castle Wealth Advisors, LLC. Castle specializes in helping families and closely-held business owners with valuations, succession planning, estate and income tax analysis and retirement income projections. Castle's senior partners work with clients throughout the country in making logical decisions that help them fulfill their personal and business financial goals. For more information visit www.castle3.com, call 1-888-849-9559 or e-mail Gary directly at gary@castle3.com.