Eight Principles of Strategic Wealth Management

– *Stuart E. Lucas*

The Chairman of Wealth Strategist Network (an organisation that helps high net-worth families in managing their wealth), Stuart Lucas suggests eight principles of effective long-term wealth management that he developed based on his 25 years of experience in managing wealth. The author opines that these principles apply regardless of the corpus size, time horizon or family complexity.

These principles are -

- **Principle #1: Take Charge and Do It Early -** It is important to understand the family finances, incomes and spending patterns, existing assets, expected rates of return and current estate plans. One must decide on long-term family and financial goals and structure these in an integrated manner. Effective management of wealth requires taking charge of the wealth building process at the earliest; otherwise taxes and inflation can accelerate wealth erosion.

- **Principle #2: Align Family and Business Interests around Wealth-Building Goals and Strategies -** Alignment of family members around common goals is crucial for effective wealth management, specially when goals are multi-generational. This alignment helps define the family's identity. Universal benefits of cooperation need to be communicated to all family members. The wealth strategist must recognize the perspectives and goals of different family members and weave together a vision for future. Bringing everyone around wealth management goals increases the collective power of the family in business, philanthropy and even politics.

- **Principle #3: Create a Culture of Accountability -** Wealth management is fundamentally a business activity. Performance metrics and accountability systems need to be established to effectively implement the wealth management strategies. Financial performance must be measured on the basis of overall investment return and not that of individual financial products. Timelines for regular reviews of investment portfolios must be formulated and followed. As the number of family members involved in wealth building grows, creating the culture of accountability becomes increasingly important.

- **Principle #4: Capitalize on Your Family's Combined Resources -** As families grow over time, resources become distributed across their members. It is important to re-assemble these distributed resources so that they function more effectively. Attempting this re-assembly is challenging but can be effectively done through disciplined family leadership. It is important for the leadership to capitalise on the family's financial scale and combined strength of family members' personalities, experience, skills, affiliations and networks.

- **Principle #5: Delegate, Empower, and Respect Independence –** While working together, it is also important to respect the individual ambitions and values of each family member. Personal interests or business pursuits of growing young adults need to be supported. The support strategy must also leave some room for failure, so that effective learning takes place among the younger generation. It is important to delegate the day-to-day functions of wealth management to competent professionals.

- **Principle #6: Diversify but Focus -** Diversification of investments is important because it helps in mitigating risk. Investments must be diversified on the basis of returns, markets and taxes that they attract. Investments may include a mix of asset classes like - stocks, bonds, mortgages, real estate, commodities portfolio, private equity, international securities portfolio, insurance or pension plans etc. The management decisions with respect to these assets require focus, energy and superior investment skills. Professional help of wealth strategists assists families in this pursuit.

- **Principle #7: Err on the Side of Simplicity When Possible -** Fancy ideas and complex solutions may be alluring but must be viewed with a skeptical eye. It is prudent to first evaluate the simple alternatives such as pegging investments to financial indices. Simple solutions may offer most of the benefits of complicated plans, with a higher degree of certainty, easier implementation and greater flexibility. If complexity is inevitable, then it is important to explain the risks and gains of such complex investments to the family members.

- **Principle #8: Develop Future Family Leaders with Strong Wealth Management Skills –** It is important to develop future family leaders to sustain wealth. Members of the younger generation must be exposed to family discussions of wealth-building goals and strategies and also to the corrosive power of excessive spending. Opportunities must be provided to younger members to observe - the wealth management process and interactions between family members and wealth management professionals. They must also be instilled with values of accountability and financial stewardship.

The author strongly advises the younger generation members to work in external organisations before they join the family business. This experience would make them better custodians and managers of both, the business and the family's wealth.

Source:*Knowledge at Wharton, August 09, 2006.*