Top 10 Wealth Management Mistakes to Avoid

– *Abhay Rao and Akash Joshi*

Wealth management is the creation of long-term wealth to meet business, family and individual goals. It is broader in perspective than merely being portfolio management. The authors advise in this article that for effective long-term wealth management it is more important for the wealth managers to know what NOT to do than the knowledge of what to do, which they often already know. The family members entrusted of managing wealth would do better justice to their task if they avoid these mistakes -

- **Going it alone -** The complexities of wealth management and the effort it requires is often not perceived in its enormity. The family member entrusted to manage the family's wealth must not think that he/she can do this work alone. Wealth Management requires specialised knowledge and skills. It is an iterative process that requires time and effort for asset allocation/re-allocation and close performance monitoring of each asset class to ensure that wealth management goals are met effectively. This requires professional help that one must be open to seek.

- **Not choosing the 'Right' Partner -** Often families seek expertise of various financial services providers to manage the family's investments/portfolio. In many instances, the expertise of the financial service provider is limited to a specific area, for example, a real estate expert or a stock brokerage. This is inadequate and does not provide a holistic wealth management solution. It is important to engage a proven wealth manager who can provide holistic advice on the entire investment portfolio of the family. It makes the wealth management approach more integrated, disciplined and helps achieve the overall objectives.

- **Lack of Clarity -** Families often lack clarity of wealth management objectives. Many of their investment decisions are reactions to the opportunities that suddenly come up. Asset allocation is not done in a planned manner. Either the assets are re-allocated too frequently or allocations do not change at all even after long periods of time. Families need to formulate their collective goals and individual goals and then strategise wealth management initiatives.

- **'Static' Objectives -** As a family grows, its goals and objectives change. If these changes are not incorporated in the wealth management process then the family goals and wealth management goals are not aligned and that defeats the purpose of the whole exercise. It is important that wealth management objectives are revisited from time to time and are integrated with the changes in the family's objectives.

- **Succumbing to Panic/Greed –** Short-term speculative opportunities may give handsome rewards to the family wealth managers but these temptations increase risks due to uncertain market forces and often disrupt long-term investment plans. It is sensible to set aside a fund

for such speculative activities but the wealth management capital must be securely invested to take care of the long-term goals of the family.

- **Communication Hassles -** It is important that family members are clear about where the funds are being allocated and how they are monitored. There should not be an information overkill that either becomes too much to fathom for family members or de-sensitizes them. Professional wealth managers must be instructed to maintain confidentiality with respect to the family's investments.

- **Ignoring Protection -** Wealth management is often considered to be just about growing capital and distributing it to the family members. Quite often, protection of life and assets is not given its due attention. It is important that all family members and crucial assets of the family and business are protected under adequate insurance cover.

- **Neglecting succession/estate planning –** Disputes and quarrels among family members over sharing of assets after the demise of a family member are very common. These can be avoided if succession/estate planning is done within the lifetime of the family business leader. Besides announcing the successor within his/her own lifetime, the family business leader can also write a will that details the succession rights of various family members. Philanthropic activities can also be a part of the will. Professional wealth managers can be made the executioners of the will.

- **Not involving family -** Many a times, the senior members of the family think that they best understand the interests of the family when it comes to managing wealth and therefore other family members do not need to know the investment details. However, not involving family members is one of the biggest mistakes in wealth management. The overall wealth management plans must be shared with family members. This increases their sense of participation in wealth management and helps enhance clarity, understanding and alignment among them.

- **Overdependence on External Wealth Managers –** The family member entrusted to manage wealth must bear in mind that professional wealth managers too are human and can make mistakes. It is not wise to be completely dependent on them. A system of accountability and performance monitoring must be created to ensure that long-term wealth management objectives are met.

The authors conclude that if family wealth managers avoid these mistakes, wealth management would become a rewarding experience that will fulfill the business and family objectives.

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