

From FAMILY WEALTH REPORT

Families first: Family wealth and the dismal truth

Charles Lowenhaupt - 14 April 2009

Charles Lowenhaupt is chairman, CEO and president of **Lowenhaupt Global Advisors**, a St. Louis, Mo.-based advisory to ultra-high-net-worth families, and managing member of the law firm **Lowenhaupt & Chasnoff**.

With so much damage done to private wealth over the past few years, the wealth-management industry is consumed by thoughts of its failings. At a time when names like **Bernard Madoff**, **Allen Stanford**, **AIG**, **Lehman**, **RBS** and **UBS** become bywords for greed, we hear about a pervasive decline in trust, and the need for families to come together in the name of managing their wealth. In New York, London, Singapore and Sydney we hear about the need to re-evaluate investment assumptions and endowment models, the effects of gating, and the stability of currencies as measuring sticks of investment performance.

But considerations of family-wealth management are simply sideshows to a larger, more dismal reality of our times.

On a remote island off the south coast of Australia, a captain of Australian industry, himself once in the financial services business, struck the note most directly. Suffering goes well beyond wealthy investors as millions of people lose their jobs and livelihoods. This is not just about the survival of financial services industry, not just about the comfort and functionality of families of significant wealth. This is about the survival of a way of life and social order world wide.



In context

This is how **Thierry Malleret** of the Geneva-based consultancy **Rainbow Insight** and a former senior director of the **World Economic Forum** puts it in a recent edition of his newsletter.

"'The outrage factor' caused by sentiments of unfairness and inequality is erupting and manifesting itself in various ways -- from the uproar about bonuses to various protests in different parts of the world and even physical attacks on some bankers' properties. The social contract between the markets and the state, the value systems and social hierarchies are being turned upside down as more and more people come to the realization that finance does not create value (production does, while finance just supports it)."

Unemployment is at 8.5% in the U.S., the highest in 25 years. Millions of people are out of work. One of every 10 mortgage holders in the U.S. is behind on his mortgage payment. Many younger people have lost all or most of the equity in their homes and investment portfolios. Retirement plans have been destroyed. In fact, it may be worse outside the U.S. The hopes and dreams of people in China and India, where a new middle class was just emerging, have been put on hold.

Nonprofit organizations are facing collapse as they deal with their own and their donors' shrinking (or disappearing) portfolios. The world's underdeveloped communities -- in Africa, Eastern Europe, Asia and elsewhere -- are finding that aid is drying up as developed countries address their own economies and as philanthropic funding is reduced.

In short, human suffering is on the rise as a direct result of the world financial and economic crisis.

Taking action

So what should private-wealth holders and their advisors be considering now?

We can start by understanding that investment performance is a minor consideration in global terms. Even the functionality of high-wealth families is insignificant compared to what the world's population is facing.

Are we the new fiddlers of Rome? As we argue about alpha and beta, gating and derivatives, bank secrecy, family constitutions and governance structures are we ignoring greater problems and greater responsibilities?

Consider that all of us and all of private wealth worldwide has benefited from assumptions and systems which have created false hope and expectations for millions. The growth of China, the soaring of India, the "home wealth" of much of the world were all built, at least to some extent, on shifting sands of greed, chicanery, and power in the hands of the few. Were not all of us participating in a complex web of strategies, unbalances, and exploitation which ultimately has failed the world's people? Are we not all obliged to fix that?

In this environment, all of us have responsibility to help, but wealthy families in particular have a special responsibility. Despite the hits many have taken, the wealthiest families in the world still have the financial resources to make a difference, if they have the compassion and will to act.

Let's consider three areas for attention.

First, we must recognize that we are part of a world community. If wealth has any purpose at all, it must be to allow our children and grandchildren to live in a world of peace and security. What better investment can be made than in community, and that now means philanthropy and volunteerism locally and on an international level. Wealthy families should be increasing their philanthropy both relatively and absolutely. They should be encouraging their members to spend as much time and energy building community resources through philanthropy and service as they spend in wealth preservation. Education is crucial to ensure that minds can devote themselves to considering the world's problems.

Second, we must focus more than ever on definitions of investment performance in a world of great economic, political and ecological need. Some family offices in Hong Kong, New York, London and elsewhere are already engaged in redefining measurement of performance to take into account the social, political and ecological impact of their investments. Advisors need to embrace these concepts and

encourage them with as much energy and as many resources as the industry has invested in designing derivatives, tax strategies and structured products. Examples include micro-finance, sustainable energy, and support of moral values. Every family member needs to share the observation of an elderly Chinese patriarch: "I am so much more interested in the impact our investments have on our world than their effect on my own private wealth. This puts the fun and satisfaction in investment."

Third, we must all help to fix the broken financial system by embracing processes that can return the investment community to reasonable stability for all. We have seen families worldwide considering the **Principles of Private Wealth Management** that we recently put forward as a new model for responsible wealth management. These principles are the beginning of the rehabilitation of our financial system through disciplined process, and they fundamentally recognize that the sound health of all investors is key to other investors and to those who are not investors at all.

Governments are addressing the world's problems as effectively as they can. But wealth holders worldwide are saying that regulation alone is not the answer, welfare services do not always work, and world collaboration is unlikely if not impossible. Wise wealth holders understand that throughout history, the contributions of private wealth have helped maintain order, encouraged creativity, and provided succor to those who need it. Now is the time for that community, a global community, to play its role with zeal and energy. -FWR

The illustration for this column is a detail from a Japanese woodblock print in the Charles A. Lowenhaupt Collection.

<http://www.familywealthreport.com>