What is a Legacy? Building Dynastic Wealth

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What is a wealth legacy? How do families achieve dynastic wealth? The kind of wealth that is built, not squandered, serving not only a family but several families over generations? This type of legacy doesn't come easy—it takes work but there is a secret ingredient to these, dare I say it, "unicorns".

They are rare as the typical wealth span of a family doesn't turn into a legacy at all. In fact, the typical glidepath of wealth—where the first generation makes it, the next builds it but begins to live well, the 3rd generation lives off the wealth accumulated rather than adding to it and by the 4th generation the family is back to working—is much more commonplace. "70% of wealthy families lose their wealth by the second generation, and a stunning 90% by the third." Additionally, "78% feel the next generation is not financially responsible enough to handle inheritance."[1]

The calculus is simple—to develop a dynasty wealth must grow at a rate that keeps up with both inflation and family spending. What allows the machine of long-term compounding to continuing fueling the coffers of such a family? What is the secret ingredient that allows some families to leave behind a legacy for the future generations to build upon?

It turns out that common values and philanthropic responsibility are indeed ties-that-bind when it comes family wealth. Concerted family values and aligned philanthropy have shown to disrupt the aforementioned "shirtsleeves to shirtsleeves in 3 generations" paradigm. With a strong sense of family values—be they for a specific charitable pursuit or deep beliefs about the responsibility the family has for others and society at large—the family's wealth is stewarded well for the future.

The process starts with bringing the family around the table at a young age. Having open discussions about the values the family has, the areas of their philanthropy, what they care about. Where they volunteer as well as where they give. A recent study[2] conducted by Indiana University explored giving attitudes across generations of high-net worth families. The study found that:

> *Parents' decisions to give to charity influence their children's decisions to give; parents who give are more likely to have children who give.*
>
> *Parent volunteering has a two-fold impact on children; parents who volunteer have children who volunteer and give.*

The family may have come together for a specific charitable purpose decades ago—a school they supported or a church, synagogue, or research on a specific disease—and these shared values have a long-term impact on wealth building. Philanthropy is very often the *esprit de corps* that brings the family together and keeps them aligned on a bigger purpose. Recently experts have seen an increased attention paid to values within the family setting. Such alignment—be it environmental sensitivities or those focused on a specific social issue (i.e. guns, immigration, diversity) allows the family to be "rowing in the same direction" which also leads to wealth building and legacies.

Family focused philanthropy advocates and provides a launch-pad for the fostering of healthy communication and connections in the family. Something far better and more sustainable can be built—a true legacy rather than just some figures on a balance sheet. A legacy and one that often starts with giving. Then one generation tells the next generation. And you know what? The wealth builds. Because it's not squandered, and it grows, and it's carefully stewarded.

Of course, there are countless stories of failure where fortunes are squandered. It could be a matter of poor investment decisions or failure to seek out advisors and fiduciaries to steward their wealth. Or maybe it's just a case of incompetence. But with philanthropy, those misses are minimized because you have a greater calling.

The question a philanthropist is likely to be asked is how their portfolio is invested and what impact is their philanthropy earning? What about impact? Impact is not measured as empirically as many would like but it is one of those things—you sort of know it when you see it. Philanthropy provides impact to their areas of focus by providing grants from their endowment (the traditional model requiring 5% distribution annually) as well as in less obvious ways.

How about the 95% invested in the endowment—can it move the proverbial impact needle? Over the last 30 years there has been a quiet movement afoot within the philanthropic circles where investment managers started to listen; they learned of the family's values and causes, aligning the portfolio's assets accordingly.

At first this went tentatively as investment managers worried that the portfolio would suffer due to this altruistic bent. Not the case it turns out. In many instances companies with a sustainable business model or focus, those typically found in ESG portfolios, have outperformed. There is also a venture component to philanthropic investing that could excite the younger generations which further strengthens the family and consequently its wealth.

So, you've got it all. But what you really want to do is make a difference. You want impact. You want a legacy. You want something you can be proud to pass on and be cared for. Stewarded for one generation to pass on to the next. And the way we do that, the way that's been the most effective, is by engaging in philanthropy and charitable planning. Explaining those values to the youngest generation early on and listening to what they are interested in philanthropically as well. Engaging the family and building something worth remembering.

1. "70% of Rich Families Lose Their Wealth by the Second Generation" Money https://money.com/rich-families-lose-wealth/
2. "A Tradition of Giving: New Research on Giving and Volunteering Within Families" Vanguard Charitable https://cdn.vcapps.org/sites/default/files/upload/A%20tradition%20of%20giving_Final_0.pdf

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