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Wealth 3.0: From Fear to Engagement For Families and Advisors

A new approach is needed in mindset and professional services

An oft-repeated parable describes a wise grandfather explaining to his young grandchild how there are two wolves fighting for the soul of the world. One wolf embodies that which is evil—the qualities of hate, envy , greed, anger, resentment, fear and contempt. The other wolf embodies that which is good—kindness, generosity, hope, compassion and optimism. The grandchild asks with trepidation, "Grandfather, which wolf will win?" The sage replies: "The one that you feed."

In a recent conversation, one of us (JG) was discussing with an experienced wealth manager methods for preparing younger generations to handle wealth responsibly. The financial advisor shook his head over how often he had seen affluent children turn out badly. He admitted he and his wife even worried about their own preteen children who were growing up with more financial security than he ever anticipated.

At that moment, two potential responses appeared, like the two wolves. The standard response would be, "well, you know, 'shirtsleeves to shirtsleeves in three generations'…," followed by statistics like the "70% rule about failed wealth transfers" and general acknowledgment about the power of wealth to destroy. The advisor's fears would be sympathized with and validated.

Instead, the advisor was gently asked, "What have you and your wife already done to teach your children good values about money?" In response, he admitted their parenting had emphasized solid responsibility, use of allowances to teach basic skills and the power of giving. He proudly described how, every holiday season, they had their kids contribute some of their money to charitable causes they first discussed. After a moment's reflection, the advisor said with a smile, "you know, my kids are actually turning out okay. I guess we've done a better job than I thought."

As advisors to families of wealth, we need to be mindful of what we tell our clients and the narrative we reinforce about wealth itself. Too often, we've fed the wolf of fear, a choice that keeps clients from tapping into their resources of engagement and collaboration. The reasons are rooted in the past 40 years' development of family wealth advising, when a powerful yet flawed approach took hold. Fortunately, the field appears to be on the cusp of its next great transformation. It has the opportunity to retain the beneficial elements of what we've learned, shedding any underlying pessimism and refocusing on a more positive, purposeful and professional orientation.

Wealth 1.0

The landscape of wealth and wealth management was profoundly different prior to 1980. In the long dry era of what might be considered "Wealth 1.0," investments consisted largely of stocks and bonds, advisors were stockbrokers or perhaps private

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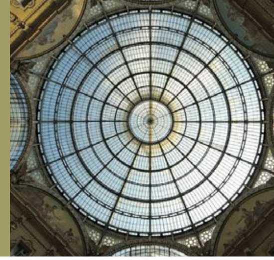

bankers and writings about the rich focused on dynastic families such as the Carnegies, Rockefellers and Mellons. Advising was about protecting and increasing wealth, period. The assumption was that rational professional advice was all that was needed; psychology and family relations were irrelevant or to be circumvented. The advisor was in a transactional relationship with a primary client who was usually a male professional or business owner.

Psychological writing about the wealthy consisted of a few obscure articles or books discussing self-centered parenting or the stunted development of their children. Discussion of everyday wealth was minimal, and family business consulting as a field wasn't yet born. Public and professional views of wealth were that it was mostly wonderful. The Wealth 1.0 paradigm still is prominent in many areas of the industry today.

The Emergence of Wealth 2.0

Our modern world of wealth management was born in the late 1970s, '80s and '90s. Innovative financial regulations were enacted, investment vehicles expanded, the financial planning profession was founded and a long-term bull market spawned significant wealth for otherwise middle class individuals. With these monumental changes eventually came what might be termed "Wealth 2.0."

The voices of the wealthy themselves were a major influence. Through books, interviews and memoirs, typified by the 1987 dissertation, *The Experience of Inherited Wealth*, by an heir to the Bronfman (Seagram's) family,[1] a vocal new generation pulled back the curtain on the challenges of inherited wealth in parenting, relationships with non-wealthy individuals, the search for purpose and stereotyping of the rich by general society. They asked for greater transparency and inclusion and to be heard.

Over the next 15 years, a cascade of books uncovered the hidden world of family wealth. The 1997 publication of *Family Wealth: Keeping It in the Family*, by Jay Hughes[2] articulated astounding concepts now taken for granted: the nonfinancial "capitals" of the family, multigenerational planning incorporating purpose and values, advocacy of family communication and collaboration and the central role of family meetings. Hughes was one of the first to emphasize the cautionary shirtsleeves to shirtsleeves proverb, impelling families to change their behavior for the better.

Wealth 2.0 shined a light on the complexities of family wealth and introduced psychology to financial services at multiple levels. George Kinder and others in the life planning movement were early advocates of counseling skills, attending to the whole client and purpose-driven financial planning. A new language of wealth broadened perspectives, replacing "the Next Generation" with "the Rising Generation," for example, to de-emphasize wealth creators as the reference point for everything. Early attempts at anecdotal research generated the now-legendary statistics asserting that family businesses struggle to survive past the third generation and that "70% of wealth transfers fail"[3] unless families focus on building trust, communication and preparation of heirs.

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The Limitations of Wealth 2.0

With the passage of time, the limitations of Wealth 2.0 are becoming apparent. Wealth 2.0 has become a drumbeat of fear-based, unnecessarily pessimistic messages that perpetuate stereotypes about wealth and the wealthy. Every invocation of "shirtsleeves to shirtsleeves" feeds the fears of wealth creators and their families that entitlement, passivity and self-centeredness will inevitably destroy what was so carefully built, without any real proof beyond saying it's supposedly universal, culturally.

Furthermore, the two most cited proofs of the purported failure rate of wealth transitions are

actually quite shaky. John Ward's (1987) pioneering study of the failure rate of family businesses over generations has been shown to be methodologically weak and has never been replicated.[4] It's in fact been superseded by a much more nuanced 2011 study by a skilled team of researchers[5] who found the opposite. Individual businesses rise and fall like any other, but the founding business family often endures successfully across multiple generations as it diversifies into other industries and spawns new ventures. The correct lesson from better research is to follow the family, not the business.

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The second commonly cited study, by Roy Williams and Vic Preisser in their 2003 book, *Preparing Heirs* and in other writings, never actually proved the "70% failure rate of family wealth transitions" the authors repeatedly asserted. Carefully tracing their citations of prior research leads either back to the now-debunked Ward study (1987) or to unsubstantiated opinions by early family business commentators. The useful encouragement that families should consider the impact of wealth on heirs is unfortunately grounded in the threat that not doing so will inevitably lead to losing one's business and wealth.

The hidden bias of Wealth 2.0 is to confuse *fears* with *outcomes*. Remember that demographically, most wealth owners around the globe originate not from the upper class but from working class or middle class roots. Well-meaning parents will naturally fear that their children and grandchildren will squander or be damaged by the family's hard-won financial security. This anxiety may also reflect a societal feeling that an overly generous inheritance is somehow unjust, so a negative outcome is a form of social retribution. Wealth 2.0 reinforces the mistaken message that these fears aren't just natural but also *valid* for a majority of wealthy families.

The consequences of these flaws and biases are two-fold. One is that the wealth management industry has fed the wolf that lives on anxiety, suspicion, mistrust and control. What started as a call to action has often been used to frighten the family into creating restrictive and fear-based plans across generations: If you don't keep control, your family is going to lose your wealth. Together with their wealth-creating clients, many advisors use shirtsleeves to shirtsleeves to ring-fence the money in trusts or philanthropy so future generations can't get at or be ruined by it. Ultimately, this lack of engagement with their own financial resources creates a self-fulfilling prophecy in subsequent generations. The elder generation inadvertently perpetuates the very outcomes it fears.

The second consequence has been to hold back development of the family wealth advising field itself. Relying on decades of lore and presumed truths, the field has been slow to professionalize itself in important ways. Despite an ever-expanding call for family wealth consultants, there's a serious lack of accepted standards in training, required knowledge, core competencies, solid research, ethics, credentialing or certification. The field remains a cottage industry of self-directed learning, scattered training opportunities, apprenticeship learning and idiosyncratic approaches to common client problems.

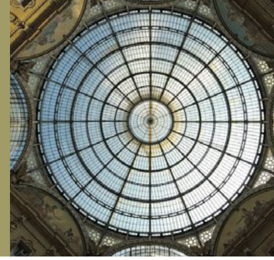
What's needed is a new approach in both mindset and professional services.

Defining Wealth 3.0

Three defining questions, adapted from cultural anthropology, help illuminate what needs to be done for the next major transition:

- What do we keep from our past that still serves us well?
- What do we let go of that no longer serves us?
- What do we learn and implement that will serve us into the future?

What to keep: Much from the past 40 years of Wealth 2.0 can and should continue into Wealth 3.0,



a more positive paradigm. Valuable lessons include involving the family beyond just the wealth-creating generation as well as advocating for greater transparency and shared accountability for what was once private and opaque. Coming together to craft decision-making structures and procedures that will last generations—no matter the size of the wealth—remains valid. So is the utility of creating a shared sense of mission, purpose, values and philanthropy via family meetings in an ongoing dialogue. The small but growing area of holistic (purposeful) estate planning and trust design should continue its advocacy of healthy processes supporting all members of what's been called the "trustscape."[6]

Advisors should continue to help families focus on building trust, effective communication and preparation of each member to handle the complexities of wealth. This can still make room for the common challenges of wealth, as long as the discussion is kept in balance and not overemphasized as the norm or the imperative. The integration of psychology in financial services should continue to expand at all levels, including fostering of skills and techniques advisors can use to help each and every client.

What to let go: What should the field discard that no longer serves advisors and families well? The inherent negativity and pessimistic bias of Wealth 2.0 should be stripped away in all its forms. The wealthy should stop being portrayed as helpless actors hoping to fend off a generational curse that will inevitably rob them of all they achieved. We should stop invoking shirtsleeves to shirtsleeves, an outdated proverb too absolute in its perspective and discouraging in its message. We should stop citing outdated invalid research that has little applicability to today's world of diversity, complexity, possibility and knowledge. Rather than repeat statistics conveying a false sense of certainty, it would be healthier to accept that much is still unknown about the long-term patterns of wealth or family business transitions.

Advisors should resist the temptation to use these old admonitions as motivators for families or justification for services that perpetuate fear-based planning and implementation. These include those opaque, highly controlling wealth transfer plans grounded in fears of contaminating the next generation or allowing input that might differ even slightly from the wealth creator's views. Overly simplistic advice like, "philanthropy will be how your family can stay together" ignores the many other actions needed to preserve wealth and the damage created by top-down charitable planning.

Advisors or families who fall back on their personal experience or media reports about yet another disaster in wealthy families should remember the perils of confirmation bias, where what we notice is strongly colored by our preconceptions and not by real data. Millions of successful, functional families of wealth don't make for good press, or any press.

Wealth 3.0 adds greater emphasis on intrinsic motivation—the desire to create a good outcome simply because it's the right thing to do.

What to implement: Finally, what should advisors and families do that's more beneficial, going forward? Wealth 3.0 is notable for its focus on strengths, inclusion, collaboration and rigorous professional practice. Drawing from the burgeoning field of positive psychology, it emphasizes possibility, positivity and creativity using the strengths and resources individuals and families already have.

This doesn't mean being blindly positive, ignoring real difficulties encountered in parenting, family functioning, personality development or even wealth management. Those who come to wealth from economic scarcity are often unprepared for the massive culture change to which they must adapt. They risk making natural but avoidable choices that eventually impact wealth across generations. Instead of feeding those decisions or telling clients they'll fail, a Wealth 3.0 approach seeks to provide early, accurate, helpful advice that bolsters good choices and praises success along the way.

Wealth 3.0 adds greater emphasis on intrinsic motivation—the desire to create a good outcome simply because it's the right thing to do. It's driven by purpose rather than fear. Holding family meetings,

teaching financial literacy and creating foundations for the family's values and collaboration can all still be done. But they can be propelled by an innate desire for engagement, mutual trust, respect and shared values.

Wealth 3.0 takes seriously social critiques of inequality and helps families respond in constructive ways to their good fortune. Through whatever political or social lens families may adapt, they make choices about using wealth for themselves, successive generations, the community and the environment. With less shame or guilt as motivators, wealth is understood as a complex opportunity and challenge, not a binary "blessing or burden" set of choices.

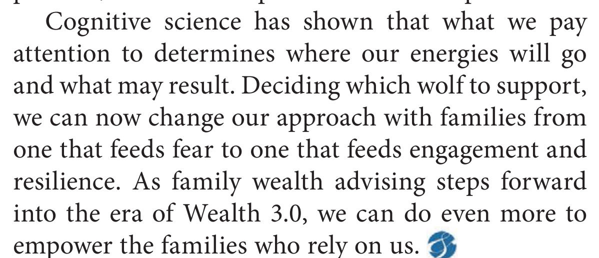
Equally important, Wealth 3.0 is a call to action for greater professionalism and rigor by the diverse practitioners of family wealth advising. Relinquishing the Wealth 2.0 tendency to accept beliefs as truths, family wealth advising needs to coalesce into a coherent field of study, research and practice, with an agreed-on body of knowledge, competencies and activities that cross disciplinary boundaries.[7] Devoted to the needs of the client, it will demand both clarity and accountability.

As an inherently multidisciplinary field, family wealth advising should deepen and formalize its integration with its companion professions of finance, estate planning, family business consulting, risk management, philanthropic advising, sociology and psychology, to name the most relevant. Academic and professional training programs should develop core curricula in scalable fashion to produce a new generation of advisors with the skills clients deserve and demand. Cross-discipline training will help foster integrated team functioning, an increasingly important prerequisite for working at the highest levels of the field.

A natural evolution will be the development of credentialing and ethics standards, integrated with the companion fields producing those advisors. The foundational principles will be effective inquiry, transparency and collaboration skills, not just between an advisor and a client family but across advisory services.

A Bright Future

Wealth 2.0 was truly transformative in legitimizing the challenges faced by the affluent and advocating for openness, collaboration and adaptation. Yet many of its ideas became unvalidated truths that planted seeds of fear in families and limited wealth advising itself. We're seeing an awakening that a more positive, strengths-based approach energizes clients to succeed instead of warning them to avoid failure. Forthcoming articles by us and other like-minded practitioners will expand on what Wealth 3.0 looks like in the three major domains of practice, research and professional development.



Cognitive science has shown that what we pay attention to determines where our energies will go and what may result. Deciding which wolf to support, we can now change our approach with families from one that feeds fear to one that feeds engagement and resilience. As family wealth advising steps forward into the era of Wealth 3.0, we can do even more to empower the families who rely on us.

Endnotes

1. Joanie Bronfman, *The Experience of Inherited Wealth: A Social-psychological perspective* (Brandeis University 1987).
2. Revised and reissued in 2004 and expanded into a compendium edition in 2017 with colleagues Susan Massenzio and Keith Whitaker.
3. Michael H. Morris, Roy O. Williams, Jeffrey A. Allen and Ramon A. Avila, "Correlates of success in family business transitions," *Journal of Business Ventures* (1997), Vol. 12, at pp. 385–401; Roy Williams and Vic Preisser (2003), *Preparing heirs: Five steps to a successful transition of family wealth and values,* at p. 17; Roy O. Williams and Amy A. Castoro, *Bridging Generations: Transitioning Family Wealth and Values for a Sustainable Legacy* (2017).
4. John Ward, *Keeping the Family Business Healthy: How to Plan for Continuing Growth, Profitability, and Family Leadership* (1987).
5. Josh Baron and Rob Lachenour, "Do most family businesses really fail by the third generation?" *Harvard Business Review* (July 19, 2021).
6. Thomas M. Zellweger, Robert S. Nason and Mattias Nordqvist, "From Longevity of Firms to Transgenerational Entrepreneurship of Families: Introducing Family Entrepreneurial Orientation," *Family Business Review,* (2011), Vol. 20 (10), at pp. 1–20; Hartley Goldstone, James E. Hughes Jr. and Keith Whitaker, *Family Trusts: A Guide for Beneficiaries, Trustees, Trust Protectors, and Trust Creators* (2015).
7. Examples of taxonomies for a fundamental knowledge base and core competencies can be found in Dr. James Grubman and Dr. Dennis T. Jaffe, "Client Relationships and Family Dynamics: Competencies and Services Necessary for Truly Integrated Wealth Management," *Journal of Wealth Management* (Summer 2010) and *The Ten Domains of Family Wealth: Case study and supplemental information, www.uhnwinstitute.org/content/2020/6/26/the-10-domains-of-family-wealth-supplement-1.*