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Investments & Financial Planning, Inc.

Book Review: *Family Wealth*

Fall 2005

Keeping it in the Family: How Family Members and Their Advisers Preserve Human, Intellectual and Financial Assets for Generations

James E. Hughes, Jr. (Bloomberg Press 2004)

Editor's Note: RightPath Investments maintains a library of classic publications addressing a variety of wealth management, financial planning and investment subjects. We also endeavor to stay abreast of recent publications. One of the features of this newsletter is to provide reviews of well-written books and articles that are provocative, may become classics in their own right and are well worth spending the time reading in full. If you would like assistance in finding a relevant publication to your needs, please contact us. We offer links for purchasing books featured in our reviews as a convenience to our readers; any proceeds received from related sales are donated to a literacy or financial education program.



**Family Wealth:
Keeping it in the Family**

Many families struggle to identify the purposes—for future generations—of the wealth that they have spent a lifetime accumulating and what tools and techniques are available for carrying out those purposes. Family legacy and mission statements, family governance and the use of trusts have historically been the tools of choice. Yet, each family needs to put its own stamp on the core notion that the general purpose of a family is the “happiness” of each of its members and much of what has been written about these issues, unfortunately, is virtually impenetrable for even sophisticated lay readers and often focuses exclusively on tax-savings strategies. For families just embarking on this journey, there has been little help.

A noteworthy exception is the recent—and astonishingly brief—book written by James E. Hughes, Jr., a sixth-generation estate planning attorney, now living and practicing in Aspen, Colorado. In an occasionally spiritual tone, Hughes brings a wealth of personal and professional experience—and indeed wisdom—to his subject.

On the surface it would seem that the principles and techniques discussed in this book would apply only to families of truly vast wealth. A closer examination, however, reveals concepts and tools which can be of enormous value to any affluent family who wishes to preserve and pass on its values as well as its value.

The book comprises two basic themes: understanding the guiding principles that permeate and inform the idea of “keeping it in the family” and applying discrete practices, tools and techniques which can be utilized by any family in addressing the subject of family wealth preservation.

Principles to Live By

The first principle Hughes propounds is that without extraordinary forethought, sensitivity and planning, even the most affluent of families is likely to succumb to the cultural proverb, “from shirtsleeves to shirtsleeves in three generations.”

The second, and perhaps most insightful idea in the book, is that a family’s wealth and its legacy is made up of three kinds of capital: financial capital (investments), human capital (people) and intellectual capital (knowledge) and that all three need to be nurtured and developed in order to avoid the “shirtsleeves” fate. Indeed, financial capital is the least important, and is most effective when viewed as an instrument to support the growth of human and intellectual capital.

One of the many challenges is divining qualitative assessments of human and intellectual capital on par with the quantitative assessments of financial capital. Every generation must be wealth generating in order for long-term family wealth to be preserved and to insulate its members from what the author calls “remittance addiction.” And it is the responsibility of each generation to train the members of the succeeding generations on the family’s common values and goals.

Real World Means to Get There

The practices described in this book are designed to produce what on the surface seems to be a modest goal: to make slightly more positive than negative decisions regarding the deployment of the three kinds of capital. Hughes’ insight and discussion of a more modern approach to trust drafting and administration is invaluable. For example, he calls for a “control without ownership” methodology, which involves a variety of checks and balances: most critically, education for both trustees and beneficiaries so they can both exhibit excellence in their respective roles. The author also extols the virtues of philanthropy as among the most effective means for a family to express its values.

Much of the book is devoted to improving the way in which people tackle their roles and mentoring responsibilities in these processes: from grandparents and aunts and uncles to the variety of advisors families need to employ. In particular, Hughes encourages families to seek out advisors who describe themselves as “called” to this work.

On the whole, this book is an excellent source of ideas and practices for families to consider when undertaking their family mission and legacy planning.