FAMILY FORTUNES

How to Build Family Wealth and Hold on to it for 100 Years. By Bill Bonner and Will Bonner

Book Summary

Chapter-by-chapter summary of the key takeaways derived from the book.

The book is available for purchase from Amazon **HERE**

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Chapter 1 – Understanding Family Wealth

- Family wealth is the ability of family members to pursue happiness and enjoy freedom and security, thanks to the wealth of previous generations. Money is just the means, the family – and its happiness – is the end.
- You need two basic, and obvious, things to have family money. You need a family, and you need money.
- To create family wealth you will need to share, to prepare, to work together, and to involve the whole family in the financial life which includes; trusts, an investment committee, a family constitution, and budget goals to name a few. It is important to include children in the decision-making processes from a young age, to help educate them and pass on the appropriate knowledge and culture from previous generations. Children can help make financial decisions, help manage family property, and partake in the family business. This will help to preserve and enhance the family wealth and culture.
- Humans are said to have two rough personality traits. One is concerned with practical things – getting wealth, running a business, building a house, etc. The other side is concerned with the less tangible, spiritual aspects of life – honour, integrity, beliefs, culture, feelings, and the arts.
- There are four primary elements of family wealth: the human, intellect, financial capital, and organisation that a family possesses.

Human Capital

Human capital is typically described as the knowledge, ability, and experience that individual family members possess. It also includes the family's emotional stability, its culture, its willingness to take risks, its willingness to work hard and to forgo immediate gratification, its ability to get a long and pull together to protect itself, as well as to achieve common goals.

- The individual members of your family and their unique, or not so unique, characteristics are what make up the human capital of the family.
- The more you encourage, nurture, subsidise, and insist upon the characteristics you want in your family, the more likely you are to have them.
  - The obvious example is education. If you want family members to be capable of managing and preserving money, you need to make sure they have the training to do so.
  - The best education is experience. Direct. Immediate. Real.
  - There are two kinds of knowledge, first what you might learn in school or from the media. The second is what you learn from actual experience. The first is useful, interesting, stimulating. But the second is much more reliable for business and investment purposes.
- Whenever possible, you want to enhance your family's human capital by bringing individual family members more fully into the picture. Children should be encouraged to participate in business and investment decisions, and challenged to analyse problems in a clearheaded, thoughtful way.
- Working along side one another will not only spread knowledge but also more importantly, culture.
- While you do not want to stop a child from pursuing their own goals, in practice, most young people do not know what they want to do with their lives. Smart Old Money families guide them.

  - An unrecognised part of the Rockefeller's success in long-term wealth preservation is the extraordinary act of John D. Rockefeller Sr. of not compelling his son to remain in the family business once he had determined his calling lay in family governance and philanthropy.
  - You develop human capital by fostering the growth of natural talents and the pursuit of individual happiness among family members.
  - Your human capital can also have liabilities, such as substance abuse, behavioural issues, medical problems, investment delusions, or disabled elderly family members.
  - Families must do everything they can to resolve these issues. If they cannot fix them, they have to make sure they protect themselves from them. An unrecognised, or unprotected, problem is likely to sooner or later blow up and possibly destroy the family.
  - The best way to protect the family is to grow and develop positive human capital by encouraging family members to develop the talents they have, whether or not they bear a direct relation to the immediate financial goals of the family. It is also important to give them as much exposure and responsibility for the family money as possible.

Intellect

There is plenty of room for golf and the beach, but there is no room for retirement. A person should not expect to become a leach on the rest of society (the family) just because they reach a certain age. They should continue to use whatever skills and wisdom are available to them. When those run out completely, then, and only then can they become a leech.

- Both families and retirees gain when old folks, as well as young folks, continue working toward common family goals, including capital formation and preservation. It is not as if old people have nothing to give!
- Youth and energy may be valuable to producing wealth. But old age and cunning are essential to holding onto it. The older a person gets, the more they have seen, including the more scams and absurdities. They are better able to spot them than a younger person. And the elderly are essential to the family's wealth management/protection plan.
- Family money depends on family culture. And family culture depends on family members, old and young. Neither is a burden on its family or its money. They are both the source of family fortunes – and the reason you have them.

Financial Capital

Family money is very different from the cash that individuals have in the bank. Members of successful Old Money families think of themselves as stewards, not owners, of their financial capital. Since they are not owners, they do not feel they have the right to use it for their own personal enjoyment. Instead, they are just supposed to look out for it, as if it were a piece of heirloom furniture. They might not like being the custodian of the "furniture" and it is more of a burden than a pleasure. Still, they do their duties.

- Personal money must feel appreciated. It is called upon almost every day to perform some errand or chore.
  - This is the problem with personal money, there is almost no service to which it might be put. As a result, it is often stretched too thin and worked too hard. For most people, personal money goes from pillar to post, never quite getting a chance to recover its strength.

- Family money belongs to the family, but to no one in particular. Like institutional money, it has people who are in charge of it. There are people who are supposed to make sure it does not disappear and other people to make sure it grows, if possible. Those people are not supposed to spend it on themselves.
- While personal money gets little rest, family money gets little exercise. It sits there, growing and compounding undisturbed.
- Family money is no one's asset, yet it belongs to all the family. It does no one's work, yet it is at service of the whole family. It increases no one's standard of living, yet it should increase the quality of life for the entire family.
- You will need someone who is capable of getting the kind of money a family need. Then, you need someone who is capable of managing and preserving it.

Organisation

The goal of anyone who wants a family fortune is partly to protect themselves from the state (government). Families maintain their own resources largely because they do not want to have to rely on the generosity of the state.

- Governments come and go and so too their policies. Being organised and prepared with family money will help shelter the family from uncontrollable events.

Chapter 2 – The family

The only likely way to build and retain family wealth through more than one generation is with a stable family. Friends tend to be transitory. Casual relationships, love affairs, and friendships come and go. Family friendships, however, tend to endure – for better or for worse.

- We want permanent relationships, permanent strategies, permanent culture, and permanent wealth.
- Permanence begins at home. And family wealth fails because families fail. What we want to do is create as much permanence as possible in those things that are within our control – first, in the family itself, then in its money.
- Serious Old Money families do things differently. They create their own culture. They are relatively independent. They plan their lives purposely. And their time horizon is much longer than those of normal families. They think in terms of generations, 30, 50, 100 years or longer.
- Older family members can play the role of elders, they can:
    - Mediate disputes (finding the best, most consensus-building resolution)
    - Enforce the decision-making rules, but not set those rules
    - Tell the stories and history of the family
    - Carry on rituals and ceremonies and memorialise them
- You have to create a family. That is different than just having children. Creating a family means creating a family life. And that takes time. And it takes both partners.
- Creating a "family life" in a household where the patriarch (or matriarch) is focused on the wealth creation is hard. It puts a strain on families. Building a fortune requires a vast amount of time and energy from the "wealth creator". The wealth creator may not be able to attend the children's sporting events or help with their homework. Instead they have their own homework to do. It takes an extraordinary effort to produce extraordinary wealth. Ordinary people do ordinary things; they end up with ordinary money. Family money is unusual. It takes unusual efforts to get it and hold onto it. The energy that is put into work is often sacrificed at home.

- As one parent will primarily focus on wealth creation, the other should primarily focus on the family. The primary carer of the family life will act as a counterweight to the lightness of the wealth creator in the home, they also bear the responsibility of turning an ordinary family into an Old Money family. They will shape the family and nurture the people in it. They will create the shared vision a family needs to succeed.
- If both parents have normal jobs, working normal hours, neither will have the time to do something extraordinary. The wealth builder will not have the time it takes to succeed, neither will the family builder. You will end up with an ordinary family, not one that can preserve wealth over generations. When both family members work, neither works hard enough at their task to succeed.
- With both family members working, it adds to expenses in terms of childcare, transportation, tutoring and other likely expenses. Household chores will also be shared, leaving two spouses working normal hours and then sharing the household chores, this leaves them on a typical treadmill. You are also less likely to earn exceptional money if you can not put in the extra time to improve oneself above the average person working 40 hours a week.
- Two ordinary incomes are not enough to produce a family fortune. It is far more likely that one person dedicated to making money will generate a much greater income in the long run due to the compounding of knowledge and experience through working above average hours.
- A second, and even greater failure from having two normal working parents is on the family side. The lack of focused involvement from any one parent can cost a family dearly. No one has the time to make sure the children are emotionally fulfilled. No one can closely monitor if there are subtle conflicts between siblings. No one can instil a sense of duty upon the children. No one has the time to elaborate the family culture: the attitudes, rules, and reflexes needed to sustain an Old Money family.
- Raising children properly is a critical family function. It should be the focus of one parent.
    - You may likely be better off educating your children at home. Or at least surveying their education closely. Turn them over to the government, and you will have government-formed children. Your human capital is likely to lose value.
    - Education is an important part of your children's preparation. It should not be left to chance or to the public-school system, which has a curriculum designed to promote ideas that are often contrary to the values of successful families. Public schools teach the government's narrative, not a family's narrative. And it is the family narrative that makes up an important part of the family culture.
    - This does not mean you should not send your children to public schools. Its just that if you do, you need a parent to oversee the child's progress. You also need to provide the children with more than the public schools can. Even if they do their jobs well, the schools – public or private – are providing only a small part of the training needed to succeed in life.
- The real wealth of a family is not financial. The primary assets are the family members and their unique talents, knowledge, and experience.
- Family members can become dysfunctional and demotivated by receiving large amounts of unearned wealth. They become combative and litigious. Unearned wealth often leads to strange and deleterious emotional reactions, for example, feeling of unworthiness, incompetence, and guilt.
- The role of the spouse, who usually does not "work" at all is critical
- The fact is that a great family fortune requires a great family creator, (matriarch or patriarch).

- First, the spouses must agree not to dissipate or consume the money. Then, they must work together to build the institutions, the culture, and the people that can hold it together. For the family to be in harmony, the husband and wife need to be. They need to agree on their vision for the family, how they will live and the plan for succession of the next generation.
- The family creator can be seen as a "producer" of capable, confident children. They focus their attention on children, making sure they are emotionally provided for, that they are well-educated, capable individuals. They instil into the children a sense of duty, to themselves and to the family.
- The family creator must be able to:
    - Share in the family culture and be capable of passing it along. Indeed, they must play the leading role in creating it.
    - Be capable of providing a stable home environment (even when the family is on the move).
    - Understand and support the wealth-building strategy.
    - Support socially the family objectives (which could include entertaining customers, clients, associates; learning foreign languages; managing contacts with friends, relatives, business associates).
    - Master complex tax and trust issues (not to mention subtle investment issues).
    - Be emotionally mature and confident and have the depth to avoid getting distracted.
- The family needs a leader. An emotional leader. Someone in charge of the families affective, cultural, and spiritual life. The role of the family creator is absolutely critical to the development of the next generation and the family wealth. They will help resolve disputes between family members. They work to strengthen family bonds and maintain harmony.
- Only strong families keep the fortune in the family. Strong families are built around strong, shared values. A strong, shared identity.
- For the family to survive it must be a source of happiness to its members.
- We must push out beyond our comfort zones if we are to do something extraordinary with our lives. But the family has to be a place where the individuals in it can refresh themselves – a sort of green pasture where you can lie down and be refreshed. Where you can let your guard down, and where you can feel good about yourself just because you are part of the family.
- The family creator has to deal with internal conflicts in the second generation. Emotional issues such as:
    - Feeling unworthy of an inheritance
    - Having difficulty finding direction in life
    - Lack of confidence
    - Being inclined to abuse drugs and alcohol
- Wealth creation is hard on the family because it requires so much of the wealth creator's time away from the family. The family creator has to hold things together. They have to fill in for the absence of the wealth creator. And they have to pull the wealth creator into the family at times, as necessary. The family creator has to allow the wealth creator to do their thing, while building a strong family.
- There are three things that you need to build a strong family: communication, connection, and culture.
    - Communication means open, honest, regular dialog between the children and the parents, and between the children themselves. It is the family creator who helps facilitate the dialogue.

  - You want to get the family together as much as possible, observe family accomplishments and events collectively, and generally feel a part of each other's lives. The family creator schedules and manages family events and pushes family members to be part of them.
  - Families need to feel connection. They need to be tied together by bonds of friendship, love, mutual respect, and a shared sense of enterprise.
  - A family culture is the result of a family's history, its beliefs, its biases, its attitudes, customs, and rituals.
- The primary threats the family creator has to watch out for are:
  - Division – this is when the family divides into different factions. The family creator must be keenly aware of growing division among the children and make efforts to rectify it.
  - Dissatisfaction – hurt feelings cannot be allowed to fester. Disappointments and sour relationships between siblings or between parents are a big danger. The family creator must be sensitive towards these sorts of feelings and make efforts to resolve them.
  - Distance – time and life changes create distance between family members, both geographic and emotional. The family creator tries to close this distance by organising family reunions and meetings and making sure that everyone attends. They encourage communication between family members, drawing attention to family members' accomplishments and life events.
- Seven common pitfalls for wealthy families and how to avoid them:
  - Give advanced notice to heirs about what is headed their way. This includes financial wealth and other responsibilities. Failure to inform the next generation can devastate young families.
  - Avoid alienating family members. All efforts should be made to engage all children in the family affairs. Everyone should have some role that they deem as important to the family.
  - While striving for excellence should be encouraged, too much competition can wreak havoc on a family.
  - Avoid mixed messages between parents, there should be a single, unified vision for the family.
  - Do not wait too long to pass on ownership and responsibilities.
  - Help your children choose the right spouses. It is a politically incorrect topic. But problematic spouses can tear a family apart. You want to encourage family members as much as possible in family affairs, family plans, and family finances. If the children have a sense of what the family is and what it is trying to do, it will help them choose spouses that can help them.
  - Make sure the family shares the vision of the succession plan. Succession plans have to be based on the shared vision of your family, not simply by the decree of the patriarch. The family should orchestrate a succession long before the matriarch and patriarch are out of the picture. That way, they can help make sure it happens without a blow up. And if the family creator role is empty during and after succession, the chances of a blow-up are much higher.
- My mother's love for me was so great I have worked hard to justify it. – Marc Chagall
- For the hand that rocks the cradle is the hand that rules the world.
- A family with members who are capable of building and preserving wealth will always be able to rebuild if something goes wrong.

- Successful families are those that develop their own family culture: a set of beliefs and a sense of mission, as well as a common narrative about who they are, where they came from, and what they are doing.
- Successful multigenerational families spend a lot of time developing a family culture that encourages production and discourages consumption. This becomes a kind of shared family value.
- Family members should be taught to respect the source of their wealth and be willing to do all they can to support it.
- The family business is a huge cultural asset, as well as the most important financial asset. Its identity should be an extension of your family's identity. The more your kids or grandkids – or cousins, nieces, and nephews – get involved on some level in the family business, the stronger that part of your family culture will be.
- The following are part of the family identity:
  - Niche business know-how.
  - Business infrastructure developed by previous generations.
  - Trusted family contacts and friends.
  - Family reputation (the family brand as understood by outsiders)
  - Financial resources
- Any hobbies that can be past on from generation to generation are an opportunity to express your family's identity. Shared hobbies can strengthen family bonds and create opportunities for the family to get together.
- The type of education your family gets says a lot about your view of the world.
  - Does your family have an alma mater that multiple family members have attended? Are there certain fields of study that your family members have in common?
  - Try to keep those educational traditions alive and have members of the next generation aspire to follow in your footsteps.
- What sort of people do you marry?
  - You may have a "test" for the prospective spouse, generally something that is in line with your family's identity and culture, something the family feels strongly about but can also be a little fun. How a boyfriend or girlfriend handles the test tells you how he or she will fit into the family.
- In many wealthy families that no longer manage a family business, the family philanthropy becomes the focal point of the family activity and identity. A family foundation can be an important opportunity to contribute to the family identity.
- Your family's political stance and activity are also important components of your family identity. In our family, we try to avoid politics altogether.
- Your family history is a key component of your family's identity. Anything that answers the question of who you are, and what your family is and where it came from, helps build out a sense of being special and different. Just knowing your lineage and family history helps enrich the family identity.
- If you do not already have a family motto and crest, consider what they might be. Remember, these should reflect qualities that are unique to your family and help promote your family identity
- Family traditions are important because they are unique expressions of your family identity. They also give a sense of permanence and stability. The more unique family activities that you can do with family members that they enjoy and take seriously, the better.

    - Beware of allowing family members to opt out of family events. Certainly, there will be periods when individual family members need to "do their own thing." But, ideally, this should be in addition to the family activities, not a substitute for them.
- Who you know can be more important than what you know when it comes to building wealth. Trusted family friends, advisers, and contacts can be invaluable for supporting family members.
- Spending vacation time together is important for family bonds. Relaxing and getting away from work with family helps keep family relationships fresh and enjoyable.
    - Family vacations are an opportunity to strengthen your family culture and identity by doing something that is unique to your family. It helps to have a place to go as a family for vacation and holidays. Keep the old family farm or beach house. Schedule events well in advance. Welcome in-laws, boyfriends, girlfriends, and new family members as warmly as possible.
- Family properties are the most familiar and often-used assets of the family portfolio. This also creates opportunity to draw family members into the family enterprise by asking them to manage family property. Properties also hold emotional value for family members. Memories are tied to family property. For these reasons, family property should be well managed and treated carefully.
    - Family property is where family members often come together. You want to keep property as a unifier, not a divider. So, avoid dividing up properties among family members as much as possible. Avoid arguments about how to manage and maintain properties. Talk it out. Compromise.
- What your family choose to invest in also makes up a big part of your family identity.
    - When you make an investment decision, you make a statement about your family's culture. As children grow up, for instance, they may be invited to go on business trips.
- Travel makes up a big part of your family culture.
- While families have their traditions and their own cultures, one cultural feature is particular to Old Money families. They must learn the family business and/or skills to preserve and create wealth.
- In forming your family identity, think about what you want to be in 20, 50 or 100 years. You will need your family members on board with everything. You will need your vision of the future to match with theirs.
- You should use your own family money to help keep the family from regressing to the mean. You can help them grow by providing internships, jobs, investment analysis, and on the job training in business and finance as well as more "store-bought" educational opportunities.
- The job of the family office – its ultimate aim in fact – is to prepare and harness the potential of your family's human assets. Some of the ways of keeping family members engaged and learning include:
    - Involvement in the family business.
    - Involvement in family philanthropy.
    - A role on the investment committee.
    - A role in the management of family property.
    - An administrative role in the family office.
    - Starting a new business venture with family funds and support.
- Remember, family wealth needs to be replenished by each generation or it will disappear. That is why you run the family office like a business. You need to make sure you seek a return on investment on its assets.

  - Put another way, the family office is to help current and future family members develop their talents and become productive. This, in turn, helps the family office endure. Because when family members discover meaningful work, they are much less likely to become "liabilities" on the family balance sheet.
- One simple characteristic that can help your children succeed is their ability to delay gratification. You want to start emphasising the benefits of delayed gratification to family members at a young age. Family members need to understand how delayed gratification was key to building the family wealth in the first place. And they need to understand why delayed gratification is also necessary to continue growing and preserving wealth for the future.
- Family wealth gets eroded as families grow larger without becoming increasingly productive. You have to increase your wealth to give the same opportunities that you had to your children and grandchildren.
- You want to transfer your knowledge in a position or skill to someone else so they can take over when the time comes. That frees you up to move higher up on the ladder and attend to more important business.
  - This is completely opposite to what most people think. Most people think they need to hoard their accumulated knowledge so they can become more valuable. Maybe they think it protects their jobs.
  - The bottom line is that it is never too early for a wealth creator to start grooming proteges. But beyond that, if you are the wealth creator of the family, you need to let go of the reins. And the sooner the better. This means your proteges gain real world experience in managing the family money.
- You want all family members to be passably competent in financial affairs. Let them each manage a small proportion of the family wealth, say somewhere between 0.5 and 1 percent. There is no better way for them to learn the ropes. The earlier they make mistakes, the better. Mistakes are a great teacher, especially if there is real money involved.
- Mentoring and internships can take many different forms. We like to send young people to work in foreign countries. We figure it gives them more options, a wider range of experience and particular skills that they would not otherwise have. Besides, you never know what the future holds. The more options you have in terms of where you can live, work, and move your money the better. And, of course, this gives your family office much more flexibility in terms of wealth preservation.
- Giving family members the opportunity to explore new cultures helps develop your family's human capital. Understanding another culture raises your self-awareness and keeps your mind limber and open. And these foreign skills, such as language and cultural understanding, could prove to be very financially valuable in the coming years as wealth shifts from the developed to the emerging world.
- The family, by way of family council, should make policies regarding spouses. That is because you do not want to make decisions like this on a case by case basis. That could create feelings of bias and even resentment. Instead, you just want prospective spouses to know what the rules are. Nothing personal about it. You want policies that put everyone on an even playing field.
  - Family members should understand that when they marry, they bring someone into the family. Whom they marry is an expression of the family identity. Will the person they marry "fit" into the family culture.
  - There should be a policy that asks the family member getting married to consider the wealth protection options.

- Should a spouse become involved in family financial affairs?
    - Although we would like them to be involved, its something we still need to figure out. If they are in our meetings, would that give an extra unofficial vote to the partner? Would family members with partners then have a greater voice in meetings than unmarried family members? What if all the children married in quick succession? The addition of so many "outsiders" would change the makeup of the family's governing committee very quickly. And in the event of a divorce how is the ex-wife or husband removed from the Family Council and other family office activities? (or should they be removed at all? If there are children involved, then maybe the ex-wife or ex-husband has a right to stay involved.)
- Writing a family constitution sounds like a daunting prospect. But it really is just a collection of guidelines to help the Family Council make consistent decisions. And consistency – especially in regard to spouses – is critical to maintaining family harmony.
- Families with a strong Family Creator and strong institutions, such as an active Family Council, do not avoid problems with addiction amongst some family members. But perhaps they can detect problems sooner; they are usually in closer and more frequent communication with one another.
    - once a problem is detected, a family should deal with it privately. We are no experts on this, either. But one route is to have a procedure already spelled out in the family constitution. Then, without making judgments on any particular family member, you can merely apply the rules, as necessary. There are no guarantees that this will help the troublesome family member, but it will protect the rest of the family and its resources.
    - The Family Council can allocate funds for treatment and other health-related matters. Beyond that, the Family Council should stick to its wealth-oriented mission and avoid getting evolved in personal, emotionally charged issues.

Chapter 3 – Money

Those who inherit money have a head start. But those who inherit drive, ambition, energy, the right attitudes, intelligence, the right culture and so forth will probably pass them somewhere along life's highway.

- Most people are able to see through the thin vail of unfairness to the more profound truth behind it. We are all born with strengths and weaknesses. We take what we get. We make the best of it. That is fair.
    - Whatever you have got to work with is all you have got.
- Unless you are an exceptional wage earner, you are not likely to be able to use your earnings to build a real family fortune.
    - This is true for those who have their own business, too. If they are selling services that they provide themselves, they face the same limits as a salaried worker. They are selling time. And their time is not that valuable.
    - You can sell only so many hours per day because there are only so many hours per day.
- Its much better to get rich from hard work, careful saving, and/or attentive investment in the real economy. Then you will know how hard it is to come by and be much more careful to hold onto it.

Financial Independence

- F-U Money is the amount of money you need to be free. It could be a lot, or a little depending on your ambitions. But it is the money you need so you can do what you want.
  - It is liberating. It does not really matter how much it is, just as long as it is enough so you can make your own decisions free from the pressures of politics, desperation, or envy. F-U money allows you to think clearly. It permits you to do what you want, too. It makes it possible for you to go where you want when you want. It gives you the wherewithal to survive as a free person in a largely unfree world.
- How much money do you actually need? We are not really concerned with living like rich people. And planning for a family fortune is nothing like planning for a specific objective like retirement.
  - When you are planning for a family fortune, there is no question of spending capital. You cannot spend it; it no longer belongs to you. Even if it still belongs to you legally, if you think of it as spendable, personal money, it will not remain "family money" for very long.
  - If you earn 4 percent on your money, you cannot spend 4 percent. You can only spend the portion of earnings that is above and beyond inflation. So, if the inflation rate is 3 percent, you have to put back 3 percent each year just to stay even with it. That leaves you with 1 percent to spend.
  - But do not forget you are also taxed on the whole 4 percent. So, you have to pay tax and then put back 3 percent to cover the inflation loss. As you can see, this is a losing proposition. So generally speaking, after account for taxes and inflation, you need to earn about 8 to 8.5 percent on your money just to stay even. Which is why bonds are a losing proposition and so too some stocks.
  - So as to the question of "how much do you need," we are tempted to say that it does not really matter. At least, not when you think about how well you could live. If you follow this logic, you are not likely to get anything that you can spend from your family money. You will have to live off what you earn, like the other working stiffs.
  - Instead we encourage you to think about it in a different way. Think about how much you can put into the pot and what you can do with it that does not involve spending it.
  - Let us say you have $1 million. Is that enough? Well it depends if you could realise a net 3 percent real return (above and beyond inflation and taxes), that would be $30,000 per year.
  - You may not want to live on $30,000 per year, but you could if you had to. That alone is a great thing, because it means that if you wanted to do so you could be free to pursue some interest that was not immediately financially rewarding.
- An advertisement ran in the New York Times in 1912. It offered a house on the coast of California, in a place that must have been little known to New Yorkers at the time: Malibu Beach. The house was for sale at $2,500 (about $67,000 in today's dollars).
  - It is likely the house – updated, rebuilt, expanded, tarted up to 21st century standards – might sell for more than $10 million today. This equates to a rate of only 8.7 percent. But what a way to make your money! The family had the pleasure of living and using the house for a century – and made $9 million to boot.
  - There were no income or capital gains taxes to pay along the way. You pay property taxes, upkeep, maintenance and so forth. But those are just the costs of maintaining a house.

- Costs (expenses) rise to fill the budgets available to them. That is true in government agencies. It is true in business. It is true in families. Make money available. It is soon consumed by spending that has been "necessary and appropriate." Expenses rise to meet the available income. So, no matter how much you earn, you will have little left over at the end of the day.
    - The way to beat this phenomenon is to either exercise remarkable self-control or to outrun your wants and needs with "escape velocity" wealth. That is, wealth that rockets up so fast, you cannot shop fast enough to keep up with it.
    - The beauty of real estate is that it does not go up any faster than anything else, but it is hard to spend. As it increases in value, its owner has no more income to dispose of. They are trapped. They get rich in spite of themselves.

Compound interest

- Another way to reach financial escape velocity is by using the miracle of compound interest. You make a small investment. You add to it. You keep at it.
    - Compounding works its magic. After a few years, you may notice that your wealth has raced ahead of your expenses. If you are lucky, you will be able to hide the fact from the rest of the family (or educate them on the benefits of letting compounding take its course), allowing the compounding more time to reach escape velocity. Imagine, for example, that you have an account that has grown to $2 million, compounding at 10 percent a year. You will earn $200,000 from the account this year. If you take it out and spend it, the compounding effect will stop. You will have $200,000 to spend. But your wealth will cease to grow. And your family will have a chance to bring its spending habits up to the level of your income. But to say nothing and let it run. After another five years, you have $3.2 million – giving you more than 50 percent more income ($320,000).
    - Another place compounding works is in business. Often, businesses reflect the kind of compound growth you might otherwise get from an investment; only, it is less obvious. And if you are putting your earnings back into the business, you would have not gotten accustomed to spending more and more. Your spending would not have kept up. But let the business grow, and one day you could realise that you have reached the point where your earnings and capital grow faster than your expenses; you have reached financial escape velocity.

Chapter 4 – The Family Business

Successful businesses are a bit like family fortunes themselves. They are difficult to bring to life. Once you have brought them to life, they are even more difficult to keep alive. Especially over more than one generation.

- Getting a fortune by running a business is the best and most common way to get and maintain a fortune. Here is why:
    - It is a more permanent form of wealth than just cash.
    - It usually provides an onward stream of income that can be used to support a family and/or add to its wealth.
    - It is dynamic and alive, not moribund. It requires attention.
    - It causes the family to work together toward a common goal.
    - It helps family members understand the value of money and how it is earned.
    - Over time, business give families a way to leverage their skills and knowledge.

- Businesses take many years to build. They are sold of only reluctantly and with considerable difficulty. Businesses are illiquid; they cannot be exchanged for other things readily. They are, at least in that sense, more permanent than cash.
- Families have no loyalty and little sense of responsibility toward money. They often feel very loyal toward businesses and work very hard to keep them alive.
- If you have 200,000 shares of a stock, it is very easy to sell a few shares every time you need a little ready cash. Not so much with a business. You cannot sell it in pieces, normally. Its all or nothing. So as long as you have it, you get the full income stream.
- A business is not dead capital. It is alive in almost every sense of the word. It includes living people: customers, employees, managers, competitors, and suppliers. This requires owners to have real, human relationships, with the loyalties and responsibilities that go along with them.
- A business also requires dynamic, ongoing management. It needs control. It needs vision. It needs energy.
- Not only does a business connect a family to its source of wealth, but it also gives family members a way to participate. They can work together – even family members with very different skills.
- Owners of a business control its spending and hiring. Often, two or more members of the family are employed by the business. They might easily earn $100,000 each, paid out of the expenses side of the ledger, before profits are declared. They might also each have a company car. Even a company apartment. And a company credit card for business expenses and business entertaining.
- Some advice for young 18 to 21-year old. Begin by obtaining some money from working odd jobs or borrowed from the family. Then hit the road and go some place new, as different as you can get from wherever you start. That way you are new, fresh, unique. If you stay within your own country, you are amongst many other people just like you, and you have no special reason for someone to hire you. Go to some place where you will stand out from the crowed and where you will have something to contribute that others do not. You are interesting and that opens up opportunities. And how interesting you are is a function of how many books you've read, how much thought you've put into things, how widely you've travelled, how many skills you've mastered, how many people you know. Its completely up to you. But you have got to get out of your comfortable and safe-seeming hometown, otherwise you are no better than a medieval peasant, chained to the dirt his ancestors toiled over and were buried in, for generations.
- You have to challenge existing businesses. You have to be an outsider. You have to come up with something new or a new way of doing things or just a better way of doing things in an old industry.
- Take chances often, but none that could sink the business. Take small risks. Learn from them. Then, take some more small risks. Never put the business itself into jeopardy because it is very hard to start a business, and it becomes more and more valuable as you learn more and more lessons.
    - You know what works only by eliminating what does not.
    - Because you never know for sure what failed, you have to guess at it and test it. Each test costs you time and money. Each one should bring you closer to what does work.
    - The trick is to get the winning formula as quickly and as cheaply as possible. Time and money are limited. You do not want them to run out before you have come across a sustainable business model.

- The person who admits they do not have all the answers, however, are more likely to discover them
- "one step at a time" is how to get where you want to go.
- The trick is to not only learn from your own experience, but to take as much from the experience of others. You do this by studying, watching, and listening to other people who have tried to succeed in your chosen industry.
    - George Soros has said "you can make a billion dollars by reading the right books.
    - Especially important are the memoirs of old timers who have seen a number of innovations come and go. Read them carefully. They may be able to save you a fortune – and years of trial and error.
- The smart entrepreneur looks for the idea – the business, the innovation, the industry – that has already proven itself, but which is not fully implemented. Because they know that success is not just a matter of their own genius and hard work. It is also a matter of luck – and the kind of luck you get when you have the wind at your back.
- While traditional paper-based media were in contraction, the internet was soaring. An entrepreneur, starting out, has a much better chance of making a success in an expanding business. And probably no industry grew faster than internet-based communications in the mid-2000s.
- The successful wealth builder invests little bits of family money to learn something. Then, only when they have proven out their concept do they put down big money.
- A real business is a collaborative effort. It has to be. Businesses compete with other businesses. The one that relies on the talents, vision, ingenuity, and imagination of a single person is doomed to fail.
    - "You see before you a man of modest talents, but immodest achievements. For the modesty of his talents, he has only himself to blame. But for the immodesty of his achievements, he has all the people in this room to thank."
- Every successful business needs at least three people: an idea person, a marketer, and a pusher.
- Often, a new businessperson will mistake the trappings of a business for the essentials of it. They will rent an office. They will print up business cards. They will register with the Better Business Bureau and begin networking at industry events. They will even apply for licenses and permits. All of that is usually a waste of precious time and resources. What they need to do is figure out if they have something to sell and if they can sell it at reasonable cost, leaving enough net income to pay the overheads.
- The goal of the family is not necessarily to manage the business itself, but it must understand it intimately and control it completely. Family members do not have to occupy all the top jobs in a family business, but the business must respond to the needs and goals of the family, and not necessarily its managers or outside stakeholders.
    - This is the critical difference between family businesses and other businesses. The family business is the repository of family capital, the employer of family members, and the main source of revenue for the family itself. That is why it exists. And its why the family must understand it and control it.
- Instead of worrying about itself, a proper business should be focused outward, toward the people on the outside it is meant to service: customers, suppliers, partners, and associates. It should try to make customers happy with their transactions. Then, miraculously, employees will be happy, too. They will turn their eyes away from each other and toward their common objectives. Like soldiers quarrelling in their base, they turn to face the enemy.

- Whether tied to the business by blood or by employment contracts, the goal is to increase the real value of the business over time.
- Family shareholders are the kind of capitalists that capitalism needs. They are willing to make investments over years – even over generations – in order to build the value of their business. The business represents the families financial and professional capital. They guard it, protect it, and nurture it. And they use time to do what no public company can afford to do: compound their knowledge, skills, and capital over generations. It is not the price of the shares that matter to them; it is the value of those shares. And it is not next week that they worry about them, but the next generation.
- If you want to make a family fortune, pick a difficult industry, with high barriers to entry, low prestige, and little liquidity. Make it hard to get in – and hard to get out. And make sure it is scalable. You cannot make any real money by selling your time, hour by hour. You want a business where you can leverage your time.
- What is the ideal family business? Hard to say, but it might be a large, diversified family farm. Here is why:
    - It is a difficult business, perhaps with relatively low returns on capital.
    - It requires active, onsite management.
    - It is physical, tangible, observable – and something to which people can become sentimentally attached.
    - There is generally very little liquidity, and a "liquidity event" is a very big deal.
    - The main asset – land – compounds in value without capital gains or income taxes.
- General advice: concentrate your forces when you are trying to get somewhere in life – diversify your assets when you are trying to protect them.
- One sure way to make more money than others is to simply work harder.
    - Resolve to work 12 hours per day. One well-focused, determined person will earn more money working 12 hours per day than two will make working 8 hours each.
    - Starting out, the person who works 4 hours more per day should earn 50 percent more than their 8-hour-per-day colleague. One person's time is about as valuable as another. Neither has any real experience or skill that can be leveraged into great earnings. So, starting out, a young couple, each working 8 hours per day, will earn more than the single person who puts in 12 hours per day – 25 percent more in fact.
    - But earnings are a consequence of accumulated effort over time. So, the person who puts in 4 hours more per day accumulates much more experience and knowledge than either of the couple who each work 8 hours. After five years, they have been on the job 5,000 hours longer than their colleague. That is the equivalent of 2.5 years more.
    - This gap between the 8 hour worker and the 12 hour worker continues to widen, year after year, so that after 10 years, the 12 hour worker is still working 50 percent more per day, but also has 10,000 more hours on the job. A person with so much more experience should be so much more valuable. Their skills should have not merely added up but compounded. They are the person with substantially more experience and skill than their colleagues. At this point, they will not just earn 50 percent more than their co-workers, but more like 200 percent or 400 percent more.
    - Of course, this is not true for hourly work. But it is true in most businesses and professions where experience counts.
- In our ideal wealth building family, the wealth creator works like a dog – outside the home. The family creator works, too, but inside the household, freeing the wealth creator to concentrate on building wealth without undermining the integrity of the family itself.

- I do not know how others do it, but our children could not afford to be starving artists without family support. Rents are too high. Health care… transportation – if they were forced to pay 100 percent of their living costs, they would have to give up on their artistic careers and find other lines of work.
    - Success does not always come immediately. And its not easy to sustain a career that does not provide quick, positive feedback. But it often pays to stay the course.
- Generally, the more formulaic the work, the less scope there is for making money at it. The more limited – that is to say, the more like school any job is – the less likely you are to turn it into a source of wealth, power, or outsized success.
    - If your work is not simple and not formulaic, you need to use fair amounts of creative thinking, innovation, and entrepreneurship to get ahead.
    - Whatever it is, it is likely to require more than your "school brain" to make it happen. It is likely to require more form you: your brain, your personality, your heart. And maybe your soul too. It is likely to require trusted contacts, seasoned hunches, educated guesses. Experience.
- There is no secret to success. Successful people just put in more hours than other people. Success is usually the product of compounded effort over time.
    - Time does not work in a linear, mathematical way. As with compound interest, time pays off geometrically. As contacts, experiences, wisdom, innovations, and intuitions are added one to another, your opportunities multiply.
    - This is why it is so important to put in lots of time. The leading figures in their industries put in lots of hours – usually far more than their competitors. They may appear to be "gifted." Their achievements may appear effortless. But they are almost always the product of time.
    - It does not exactly work that way in real life all the time, of course. Hang around too long and you get tired, and the lessons you have learned might not be applicable to the new realities. Suppose, for example, that you had learned to make the perfect buggy whip, at age 55, in 1910! Or imagine that you were the leading expert on silent movies just before the "talkies" started. Or maybe you were cornering the classified advertisement market as Craigslist and eBay made their appearance. But aside from that kind of setback, time compounds your advantages.
- The longer and harder you work at something, generally, the more success you have. But there is an intriguing idea left dangling. What if you could work at something longer than a single life span? What if you could keep compounding for more than one generation? What if one generation could help the next succeed?
- We know that wealth is accumulated over many generations. We know that just by looking around. Our generation did not build many of the edifices we see, nor clear the fields where the crops are planted, nor invent the automobile, the airplane, the television, or the toaster. We inherited those things and much more besides.
- The Martin family started making guitars in 1811. Now, everyone has heard of Martin guitars. The family is still making them. The Beretta family is still making guns; the business was begun in 1526. The Rothschilds have been in banking since the 18th century. The Lemoine family started publishing books in 1772; they are still at it too. And the Hoshi family in Japan has been running a hotel for 1,200 years!
- People learn, no matter where they are and what they do. So, the real question is, where are they likely to learn more, or which type of learning will be more valuable?

- Caesar learned his trade by following his father's footsteps. His father made the introductions. His father set the pace. Then Caesar was able to step into his father's footsteps and keep on walking. Caesar did not come from nowhere. He did not start with nothing. He started off where his father left him. He launched his career with the capital his father gave him: skills, reputation, experience, money, and contacts.
- One of the many underrated legacies a parent can leave a child is a good reputation.
- One generation lays the foundation. The next can build on it. This is another payoff of compound effort over time.

Chapter 5 – Investments

Serious Old Money investors barely follow the news and never react to it. They know that the really important trends take years to develop and then many years to play themselves out. You can take your time… months… years… before making a decision. There is no need to feel rushed.

- Investment success happens by taking big positions in big trends and leaving them alone for a long time.
- We look to opportunities that we think will pay off over the next 30 years.
- Old Money takes its time. And it uses the short-term panicky nature of most investors in order to pick its opportunities.
- Time, not the size of your portfolio, is the key variable. If you are interested in long-term, multigenerational wealth, you should use the same techniques whether you have a little money or a lot.
- One problem with the typical investment fortune is that it is hard to hold on to.
- Here are some things not to do:
    - Do not invest in anything you see advertised
    - Do not put your money into anything you see on TV unless it is presented in a negative light.
    - Do not invest in anything that everyone else considers safe or conservative.
    - Do not make more than one major investment decision every five years.
- You want to buy what no one tries to sell you from buyers who are completely discouraged.
- A big part of investing comes down to being in the right place at the right time. Being in the right place at the right time is much more likely to pay off than being smart enough to find just the right stock to buy.
- Old Money families are more concerned about minimising fees and costs than ordinary investors with a lot less money. Old Money does not worry about day-to-day, quarter-to-quarter, or even annual results.
- Success means not getting distracted by short-term opportunities. It means avoiding getting involved in extraneous investments, businesses, gambles, projects – even when it looks like you could win at them. It means seeing targets of opportunities and ignoring them. It means having a strategy that can take you where you want to go, and sticking with it, even when it seems that it might be much more fun – and more rewarding – to do something else.
- Underlying value does not change much or often. But the traded stock price changes every day, and often by a large amount. The secret to successful value investing is to buy stocks when the price is significantly below the value.
- The key advantage that a family has is time. While others need to invest for a payoff of 5 or 10 years down the line, we can wait, even for generations, if need be. So, we can take

advantage of the "miracle" of compounding in a way others cannot. we can wait for compounding to work its magic.

- Confusing volatility (in a stock price) with risk is a big mistake. Traditional risk measures are backward looking and therefore assume that the future will look like the past.
- Our goal is to succeed, not to win. And we succeed by respecting the first rule: do not take a big loss.
- That which is most risky, as judged by the majority of investors, is actually the safest. That which is considered to be the safest actually carries the most risk.
- Here is a thought: Each time humans make a breakthrough, there rate of growth speeds up. They then take advantage of it. They fill up the economic niche that opens up for them as fully as their new technology allows. And then what? Growth then goes back to "normal." But what is normal? Apparently, normal is very low, or negligible rates of growth; that is what we had before the industrial revolution began. For approximately 199,700 years, the growth rate of the human species was negligible. Vanishingly small. Zilch. For thousands of years at a stretch, there was no change in populations or living standards.
    - You appear to get rapid growth only from big breakthroughs that make new energy available – and put it to work for you.
    - A new technology or innovation or discovery or even a new method of organising existing resources bring results – but not unlimited results. In the case of the human story, each new source of energy has been exploited, and then economic growth rates have fallen. Perhaps to zero.
    - The investment returns of the past 200 years actually may reflect this anomaly. That is, they may be the product of abnormal growth rates brought about by the introduction of fossil fuels. If so, investors may never again enjoy the rates of return like they did in recent history.
    - This analysis applies to the advanced, energy-burning developed countries of the world. There are many places where the "energy revolution" has not yet been fully exploited. There are huge parts of the world where modern economies do not exist.
- Anything that cannot be explained in simple language in 15 minutes is not something you should invest in.

Chapter 6 – Long term trends

There is the knowledge you get from the bottom up. And there is the knowledge you get from the top down. The top down is what "everybody knows," the kinds of things you find in the newspapers, for example. The bottom up is the result of direct experience and personal inquiry. It is what you discover on your own. What you know to be true from personal observation.

After 1970:

- Gross energy use per person peaked out (in the developed world).
- The rate of return on an incremental unit of debt went down.
- Rebounds from recessions grew progressively weaker; they were driven by making credit cheaper.
- Real hourly wages peaked in the United States.

In a nutshell, after the 1970s, people stopped using more and more energy. They also stopped getting richer. Then, both the United States and Europe turned to debt. The United States cut the link to gold, making it easier to borrow. American households borrowed to continue increasing their standards of

living. European governments borrowed to expand social services. The United Kingdom borrowed for both reasons. And now, the borrowing has gone exponential, while growth has almost disappeared.

- Great advances in living standards and related increases in the value of equities have been driven by big increases in energy use.
- Growth rates in the developed world have declined.
- A more conventional explanation is that the developed countries are merely in a period of debt consolidation. After 60 years of credit expansion, it is time to reduce debt. That alone could be responsible for the failure of growth and material progress. But why was there so much debt?
    - After the first oil shock in the early 1970s, the economy failed to produce much real growth per capita. Only by going into debt – effectively, spending money they did not have – could households increase their standards of living. But we have to remember that the debt itself – and the subsequent deleveraging – are consequences of the same extraordinary energy-driven boom we have been describing. High growth rates over long periods of time convinced almost everyone that standards of living would always go up over time. This allowed both private and public borrowers to believe that they could move some of the inevitable growth forward, so they could enjoy it sooner. In other words, the belief in growth was somewhat self-fulfilling and thoroughly captivating. If growth were a sure thing, debtors could reach ahead to monetise future earnings in the present. States could run large deficits, confident that they would grow their way out of debt in the future. Households could anticipate higher wages and smooth out their lifetime living standards.

Who will have the last laugh?

When Richard Nixon cut the dollar's link to gold, there were many people who forecast doom and gloom. No nation had ever run a successful paper money system. How likely was it that the United States would succeed where all had failed before it? How much had the human character improved over the years? Would central bankers now be above temptation and mistake? Free from both error and sin?

It is hard to ask the question without laughing. But for a long time, the laugh was on the doubters. Yes, the cynics had the firs laugh. Inflation rates rose as the United States did as the Cynics forecast. Government spending rose. So did prices. The price of gold rose, too, as people anticipated the crack-up of the system.

But the system did not crack. Inflation rose to 13 percent annually. And no further. Volcker stopped it. And then it was the believers who laughed.

But the question is: Who will have the last laugh? And here it is worth looking at what happened between 1971 and today.

When Richard Nixon implemented his new monetary system four decades ago, he set in motion a huge expansion in the world's supply of cash and credit. Gold was limited. Paper money was left to run wild. Ben Bernanke famously announced how it worked in a 2002 speech, entitled "Deflation: Making Sure It Doesn't Happen Here." He explained:

The U.S. government has a technology, called a printing press (or today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost. By increasing the number of U.S. dollars in circulation or even by credibly threatening to do the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent

to raising the prices in dollars of those goods and services. We conclude that, under a paper money system, a determined government can always generate higher spending and hence positive inflation.

Bernanke made it sound like a piece of cake. He should have appended a footnote. Inflating is easy when the credit cycle is expanding. When an economy transforms itself from grasshopper to ant, it gets harder. People switch from borrowing, spending, and investing to exterminating debt and hoarding cash. That is when stimulus measures—fiscal or monetary—cease to work. It is when the formula of the previous half-century becomes worthless. That is when the cynics begin warming up for their final laugh. But we are getting ahead of ourselves.

The boom had begun during the Reagan administration—in fact, it turned around on almost the very day that Ronald Reagan was inaugurated. We attended his inaugural ball, sure that the trends of the past 20 years would last a few more years. Consumer prices had been rising steadily—and were now going up at 12 percent per year. And gold had gone from $41 per ounce at the beginning of the 1970s, to more than $800 by the time the 1979 election results were in. How were we to know that that trend had run its course?

The country had seen what stagflation would do to it. It had had enough. Even economists recognized the need for a change. Easy money policies were out of the question; the bond "vigilantes" already had their eyes on M3, the broadest measure of the money supply. And consumers were ready to ditch the dollar. Volcker knew he could not hope to go along and get along. He had to jack up rates—over 20 percent—to save the dollar; damn the recession!

Recession came, with the economy going into the worst recession since the 1930s. But it worked, and the price of the dollar—measured in gold—rose for the next 20 years. Woe to the "gold bugs" who stuck with it…

But wait, suppose the gold bugs actually did stick with it? Suppose they looked up on August 16, 1971 and read the handwriting on the wall. The day before, Richard Nixon had "closed the gold window" at the Treasury. Henceforth, you could rap on the glass all you wanted. Even if you were Charles de Gaulle, you still would not be able to trade your paper dollars for the gold you were promised.

This was a major default. And it clearly augured more bad things to come. Now that the dollar was no longer anchored to gold, the entire world money system—which was anchored to the dollar—was adrift. And you did not have to tell us gold bugs what that meant. It meant that the dollar would soon be worthless.

So, let us imagine that they did exchange their dollars for gold. Just to make the math easy, let us imagine that they waited a few days after Nixon's announcement and got an ounce of gold for every $50 they traded.

We all know what happened next. They looked like geniuses in the 1970s—and then like morons for the next two decades. Gold rose to over $800 by the end of the 1970s. But then, the aforementioned Mr. Volcker put the kibosh on inflation. In doing so, he also pulled the rug out from under the gold bugs. The dollar was good. No need for gold, especially not overpriced gold. The price of gold fell for nearly 20 years, beginning at the onset of the 1980s and ending at the end of the 1990s. By then, the typical gold bug was broke and depressed. You could find him muttering to himself while picking up cigarette butts and looking through dumpsters for a half-eaten sandwich.

But the markets had a story to tell. And it was not over. Prior to the "Nixon Shock" of 1971, nations settled their trade imbalances in gold. This had the effect of keeping trade imbalances from getting too out of whack. If a country spent too much on imports, its paper money ended up in foreign hands.

When this paper was presented to the central bank, a transfer of gold from the importer to the exporter settled the account. Nations with trade deficits were thus encouraged to raise interest rates to cool imports and protect their gold.

After 1971, imbalances were allowed to run unchecked. In effect, Americans could buy things without ever really paying for them. It was as if you sent a check in payment for a new washing machine and the check was never cashed. You might be tempted to buy more! Dollars shipped abroad were never presented to the U.S. Treasury for exchange. Why bother? The U.S. dollar was the world's reserve currency.

Americans bought more and more from overseas. In the four decades before 1971, there was not a single U.S. current account deficit. Since, the U.S. has run a deficit every four out of five years. Soon, the volume of goods coming into the country was far beyond the volume going out. Ships appeared at Long Beach Harbor laden to the gunwales with merchandise. They left riding high on the water—empty.

This resulting explosion of new dollars caused a worldwide boom. Much of the boom in the emerging markets in the 1990s and 2000s can be traced to this source. Not only were foreign factories running hot trying to keep up with demand from America, but exporters were forced to print money of their own to keep up with the flood of dollars. They needed to redeem dollars from their own merchants and prevent their local currencies from rising too much. The higher the yuan or the yen rose, the less competitive were Chinese or Japanese products, respectively, to America's rapacious consumers.

What a system! The U.S. consumer spent money he did not really have to buy goods (mostly from China and Japan) for which there was no genuine market. The local central bank took in the dollars—in exchange for local currencies—and lent them back to the U.S. Treasury! It was as if the money had never left home. As you can see in Figure 6.1, since 1975, imports have exceeded exports every year.

But debt was building up.

A crude way of understanding this is to say that today there are 8 trillion more dollars in the world than there should be. And far more debt. But the United States was hardly alone. All the Organisation for Economic Co-operation and Development (OECD) nations have debt in excess of 250 percent GDP. Several—Britain, Japan, and the Netherlands—are twice that high.

This is the sort of out-of-whack situation that calls out for correction. Debt levels desperately needed to come down. That is the nature of the crisis that began in 2007 and continues today. Consumers in the United States—and elsewhere—borrowed too much money. They now needed to deleverage. They needed to pay down their debts.

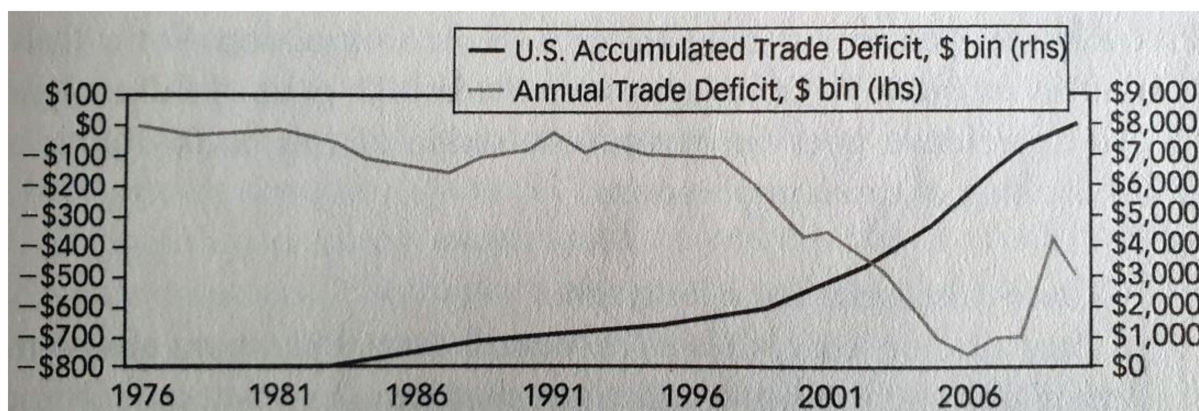

Figure 6.1 U.S. Trade Deficit

Source: Kevin Bambrough, "The Greatest Trade of All Time," Markets at a Glance, Sprott Asset Management, August 2011

They needed to get the burden off their backs so they could return to spending money again. This deleveraging spell was bound to lead to problems.

In a credit expansion, truly wonderful things happen. A bank takes $10 worth of capital and—thanks to the fractional reserve banking system—lends out $100 or more. Consumers spend money that they never actually earned. This, too, has a wonderful effect. Businesses typically pay out in wages much of what they take in in sales receipts. Labour is an expense. It is also their major source of sales. But when sales come from credit, there is no offsetting expense item. The money that would have been paid out in wages drops to the bottom line as profit.

In a credit contraction, however, less wonderful things happen. In fact, the cycles that were so beneficial become obnoxious. Consumers pay back $100 worth of loans and the money shrinks down to $10 or worse. Often, loans are not repaid at all. In this simplified example, if a single $10 loan is not repaid, the bank's capital is wiped out. It cannot loan any money to anyone. What happened to the $10? It disappeared.

In a contraction, sales disappear, too. Instead of spending more than he can afford, the consumer begins to spend less than he can afford. He withholds some spending in order to pay down debt. This has a knock-on effect that is even less wonderful. Businesses make fewer sales, so they need fewer employees to make them. Joblessness increases, further reducing household incomes, sales, and profits.

These periods of deleveraging or credit contraction are so rare that economists cannot study them. There aren't enough data points. The best we can hope to do is to understand them generally and theoretically. Probably the best recent example of a credit contraction—or a "balance sheet recession"—is in Japan over the last 21 years. A full analysis of that experience goes far beyond the scope of this book; still, it is worth looking at three implications:

- These things can last a long time.
- They are not susceptible to successful central planning intervention (although some would argue that Japan's two-decade slump would have been worse without determined, countercyclical fiscal stimulus).
- They can be brutal.

It is that last point that a long-term-oriented, macro-minded investor should keep in mind. And then, in the back of his mind should be the American public's abhorrence of pain in all its forms.

So, let us return to our gold bug. In 1998, gold hit its final low, at $256 per ounce. The bear market had run its course. He could not know it, but the major trends of the past two decades were getting ready to turn around. The Nasdaq hit its high in January 2000. The Dow, too, topped out. The feds came into the market with huge inputs of cash and credit. They fought the downturn of the 2000s just as they had every other one since World War II just with much more fire-power. But the story had changed in a dramatic way. They did not get the same results. Ten years and trillions of dollars later, the major indicators of the U.S. economy were in a slump again. It was obvious that the countercyclical monetary and fiscal stimulus programs had reached their limits. It should have been obvious, too, that the credit cycle had reached its

What would cause this? Well, we return to a well-worn idea: the principle of declining marginal utility, applied to debt. As an economy adds debt, each additional unit produces less and less incremental out-put. In the period of 1950-1980, more or less, additional debt paid off at a rate of $1 of output for each $1.40 of debt. That rate began a steep decline in the 1990s and ended up in 2007 at around $5 of additional debt for every additional unit of GDP. Debt did not pay.

This meant that you could not pull your way out of a slump simply by offering more credit; the economy already had too much. Furthermore, it meant that debt was no longer a boon to economic growth but a drag on it. This was shown in the work of Carmen Reinhart and. Kenneth Rogoff. In their masterful study of government debt, they illustrate how higher levels of debt are accompanied by lower levels of growth. Roughly, when national debt equals 90 percent or more of GDP, growth slows by 1 percent.

It does not take much imagination to see how these trends become self-exterminating. The higher debt grows, the less able the economy is to support it. Debt must be paid down, not increased.

Markets generally eliminate debts quickly. Sometimes roughly. When investors become concerned that a counterparty is no longer good for the money, they do not wait for Humpty to fall off the wall they push him. No one wants to be left holding the weak debtor's paper. But more than that, they also try to figure out to whom the debtor owes money and sell his paper, too. And they sell even the debtor's solid assets, figuring that he will be forced to sell them himself, driving down the price. Lions show a wounded wildebeest more mercy. If the debtor is known to own shares in a small company, for example, they sell the shares. This reduces the value of the debtor's remaining good assets at the very moment he needs them most. And if he needs to borrow more money to stay afloat, his interest rates rise, making it harder than ever for him to make ends meet. In a matter of minutes, the poor fellow—be he an individual, a bank, a company, or an entire nation—is wiped out. His paper—his IOUs—are worthless.

That is the grim process that central financial planners seek to avoid. Not that there is a good reason, economically, to do so. On the contrary, the quick cleansing is probably the best way for the economy to get back on its feet as soon as possible. But voters do not like the feeling that the economy is out of control. And, of course, central banks look out for their member banks, which are the very banks the system usually needs to get rid of.

On the evidence, central financial authorities will go to almost any lengths to avoid letting nature take care of a debt problem. They will lend promiscuously. They will pass decrees and enact laws to prevent short-selling, bank runs, price increases, or whatever else they think will help. In the end, they will print money.

People rarely experimented with a pure paper money system. Their intuition told them it was a bad idea. So, what happened when they tried it? Though the historical record is short, at least it is clear: No paper money system ever lasted through an entire credit cycle.

And so here we are. We have entered the challenging part of the credit cycle. We have a paper money system doomed largely by its own success. It has run for 40 years. It has allowed huge imbalances to build up, as well as the huge run-up in private- and public-sector debt. What will happen as the deleveraging downstroke runs its course?

No one knows. But the smart money knows how to bet. Looking at the big picture, the long-term picture—the part of the picture the efficient market hypothesis says is not worth looking at—tells us to bet against the dollar and against U.S. Treasury debt.

Maybe the central bankers have finally gotten the hang of running a paper money system without the discipline of gold behind it. Most likely, they have not. And if they have not, gold will be the ultimate victor. As paper money declines in value, gold—nature's own money—will rise.

The whole situation is one for the history books. Four decades of paper money—with effectively no limit on credit expansion—have created mountains of debt in all the developed countries. Now private sector debts are being sloughed off and asset prices wobble, making investors fearful and skittish. The more they sweat, the more they seek the safety of U.S. Treasuries and the lower interest rates go. Low rates delay Armageddon. If Japan is any indication, the final catastrophe maybe be put off almost indefinitely.

But the economy continues on the road to hell—and picks up speed. When it will finally arrive, we don't know. But we bet the price of gold will be higher when we find out.

Chapter 7 – Hard Structures; Trusts, Tax and Estate Plans

“Hard Structures” will be necessary to help your family money survive for generations. Without them, the fortune is not likely to last. Hard structures are the legal structures – Trusts, tax, and Estate Plans and so on – that make having money a burden.

There are four key “hard structures” you need:

- A will and estate plan
- A trust
- A tax strategy
- Investment/bank accounts

Estate Plans

- Take your entire family and project it forward several generations, you are likely to suffer the calamities the insurance companies protect you against. You are not protecting yourself against risk; you are merely using insurance to finance the painful events of life. You could do so much more cheaply yourself by maintaining a family “emergency fund”.
- Ideally, you do not want to have to depend on an insurance company – or any other company – to protect your family money.
- The ideal thing is not to need an estate plan. Why? Because an estate is what you leave when you die. Ideally, you do not want to die. Of course, that is unlikely. But when you do die, you might have organised your affairs so well that you leave no estate. So, you do not need to plan for it. If you do it right, you will not own anything when you die.

- The point is, the less you have left in your estate at the time of your death, the better. Give it away. Sell it. Spend it. But get rid of it.

Trusts

- Family money has to be owned by someone. So, you usually need a hard structure – usually a trust – to give wealth continuity.
- A trust is owned by no one. At least, if it is set up properly. So, you eliminate the inheritance tax issue. No property passes from the dead to the living.
- $10 million in a trust, earning a 6 percent annual rate of return (without capital gains or income taxes), will grow to about $184 million in 50 years. But if the same money passes through two generations and is subject to a 55 percent inheritance tax, with a $1 million exemption, it will be worth only about $39 million at the end of the same period.
- When we started, we went to a bookstore and bought a book on international tax structures. We cannot say that we were able to master the subject in this manner. But at least we could sound like we knew what we were talking about when we spoke to the trust lawyers.
- A friend of ours councils' people to diversify across several different countries. He says you should put yourself in one country, your bank in another, your business in another, your income in another, and your investments in a fifth one. Each country should be selected depending on how well it functions for that particular purpose. You want to live, for example, where you will not pay estate taxes when you die. And you want your investment accounts in a country that does not tax capital gains.
- Let us imagine that a family owns a whole string of pawnshops and that it earns $1 million per year in post-tax profits. The pawnshop chain has a total net worth of $10 million. Assuming the business is in the name of the parents of the family, to avoid paying taxes, they set up an offshore structure – typically a trust, a corporation, a new will, and a new bank/investment account. This structure buys the pawnshop business from the parents at fair market value. The structure pays $10 million, making yearly payments of $1 million for 10 years (plus interest). The money to pay for the pawnshops comes out of the business (the $1 million dollars of post-tax profits). It still goes to the parents. But the business, the profit-generating capital asset over time, is moved to a foreign entity, where it is free and clear of taxes.
    - Remember, we are not talking about the real property or even the corporate earnings of the business. Both these are still subject to local taxes since they are still in the same country. The country has not lost any revenue from the sale of the business. Nor has the family gained a penny by avoiding taxes. Just avoided paying any additional taxes if and when the business is passed down to the next generation.
    - Now, in this example, the $1 million in post-tax tax earnings may now build up, with interest and capital gains, also free from taxes. Properly managed, they may grow free from any taxes.
- Politics, power, and bureaucracy are the enemies of real wealth. It is easy to be drawn toward them because it is natural to use money to buy political muscle for the purposes of protecting wealth. But it is a trap. Better to keep a distance. It leaves the family free to select the places, laws, currencies, and tax system that best suit it. Instead of being held hostage by a single political unit, the family can choose the most appropriate institutions for its own needs.
- To conclude: You need five hard structures in place. You need an owner of the family wealth, usually a trust. The owner needs an investment/bank account, usually in a place where you can trust the banks and the currency. You need a will and an estate plan. And you need a tax strategy that makes sense and connects these pieces with your family's wealth and financial

goals. It is a big job to put these hard structures in place. Our advice: Start early. Take your time.

Chapter 8 – Creating Prosperity for Generations

Soft Structures

Our family has put in place our own system of soft structures. They are soft because they are not legal entities merely conventions and protocols that the family sets up for itself. These provide a structure, a system, for managing wealth and harmonising relationships between family members. They provide instructions and rules for future generations of family members to follow.

- You want to turn your family money into and institution, rather than a temporary collection of people or the reflection of a single personality. Wikipedia defines an institution as "any structure or mechanism of social order and cooperation governing the behaviour of a set of individuals within a given human community. Institutions are identified with a social purpose and permanence, transcending individual human lives and intentions, and with the making and enforcing of rules governing cooperative human behaviour." Order, cooperation, permanence – these are the things that help families hold onto money.
- The family needs to create a well-developed culture, a shared sense of history, a common purpose, and so forth. These are essential. But there are also specific structures, such as a family council and a family investment committee, that help the family govern itself.
- Unlike wills, trusts, and tax structures, soft structures are not legally binding. They are much easier to set up and much less rigid. They should evolve with your family circumstances and help the family to continue to work out its problems together.
- Soft structures help the family to do the following:
    - Stay together in relative harmony for generations
    - Allow individual family members to achieve what they can in life
    - Express and enrich the family identity
    - Preserve and grow wealth over generations
- Soft structures give family members a chance to talk. They force communication and conflict resolution. There are no guarantees. But at least soft structures give a family a place, time, and forum for confronting disagreements.

What type of family do you have?

- But let us begin by asking: what sort of family do you have? What kind do you want? What are you trying to achieve? And how do you want to govern yourselves and manage your money? You really cannot move ahead without answering these questions. You can answer them precisely, in writing. Or tacitly. But they must be answered. Otherwise, you will not know what kind of hard and soft structures you need.
- The matriarch and the patriarch, the founders of the family dynasty-to-be, should agree on a vision for the future. It does not have to be precise. It does not even have to be articulated. But they need to agree on the fundamentals: who are they, what they want, how the family is going to live, and what will happen to the family assets in the next 5, 10, 20, 100 years.
- Then the second generation gets involved. The children need to contribute to the discussion, sign on to the project, and understand what will be required of them.
- There are many different hard and soft structures you might use. We will tell you about ours. After four years of studying conventional family office governance, we have created our own

soft structures plan. Its call the "endowment model." It consists of the following soft structures:

- The Family Council
- A mission statement and constitution
- The family bank
- The investment committee
- An education and mentorship program
- The family philanthropic committee

The Family Council

The Family Council is a group of family members who makes executive decisions for the family as a whole. The Family Council determines the success or failure of your legacy over time.

- Within the trust framework that we recommended; the Family Council also manages all distributions from family assets.
- Succession struggles and power vacuums have always led to trouble. This is why setting up a well-run Family Council is a vital part of your wealth protection strategy. And it is why it is so important to start holding regular meetings as soon as possible to get the family used to group decision making.
- The responsibilities of the Family Council include:
  - Drafting a family mission statement and family constitution.
  - Overseeing the investment committee and monitoring performance of family investments.
  - Managing and drafting legal documents concerning the family estate planning.
  - Managing the family's philanthropy efforts.
  - Overseeing family property management.
  - Resolving family conflicts.
  - Managing the strategic and tactical goals of the family enterprise.
  - Organising activities that strengthen family bonds.
  - Formulating policies for family members working within the family business.
  - Formulating policies regarding inclusion or exclusion of spouses.
- You need to make sure the decisions of the Family Council can not be bypassed. That does not mean you need to have consensus on every issue. But important issues – such as the disposition of family wealth – should be based on persuasion and consensus, not a majority vote. This makes a Family Council, typically, a very conservative institution. Major changes should only be made slowly and reluctantly. Each one may require long periods of consensus building.
- The wealth creator should begin the process by sharing their wealth-management responsibilities with the Family Council. It will have to make important decisions after the wealth creator has passed on, anyway. Better to give it some practice while they are still on the job.
- You should try and make the Family Council as official as possible. Distribute an agenda before every meeting. Make sure council members have an opportunity to add to the agenda. Make sure they are prepared in advance, just as they would prepare for important business meetings. They should review the agenda ahead of time and be ready to ask a question and debate the topics.
- Our family held our first Family Council meeting during Thanksgiving 2010. This is when we "institutionalised" our family office. Our goals for this meeting were to:

- Introduce the family office concept to the family.
- Organise the family budgets.
- Get everyone thinking about how we can work together on family projects.
- Start to get the system of family governance working.

- During the meeting, we also talked about the family properties, family, budgets, our schedule for the year ahead, charities, cost control, and a number of other issues. At the end of the meeting, we went around the room and asked everyone for their "takeaway." Everyone seemed to have learned something: the family office was on its way.
- Filling your Family Council with capable family members will be a huge help in preserving your family's legacy. The selection process begins on family culture. Typically, in the first and second generations, all family members are part of the family council. Everyone is expected to familiarise themselves with the issues affecting the family and to participate in the decision-making process. Young family members can start participating in the family council in their early teens. But when your Family Council reaches 15 to 20 members, it is best to switch to a representative system. Under this system, an elected senior family member will represent different family branches to avoid the Family Council becoming unwieldy.
  - Most American and European families include spouses in their meetings. Excluding people who play such an important role in the family can breed ill will toward the Family Council. Spouses are influential of the lives of current and future family members. It would be a mistake to alienate them.
  - Including spouses can help make your family office's governance process more robust. It can bring more capable people into the Family Council. And it can help reveal – and perhaps resolve – problems arising within your family's marriages, at least insofar as they are connected to the family money.
  - You would want to keep a close eye on potentially troublesome spouses. It may be better to engage this person in the controlled environment of the Family Council, rather than leave them on the outside. A Family Council meeting is a great place to gauge whether the person is trouble – or not. You cannot pretend this person will not be a major influence over his or her spouse, and therefore your brother or sister, son, or daughter. Its better to confront these issues head-on. After all, its these unspoken conflicts – many involving spouses – that cause so many families to fail.
- A perpetual trust, as the name suggests, holds assets on behalf of beneficiaries in perpetuity. In our version of it, beneficiaries must be engaged in "productive behaviour" to be eligible for distributions, and then only for education, business, and career advancement. It is the role of the Family Council to make these distributions. It is also the job of the Family Council to determine that beneficiaries are abiding by the terms of the trust.
- The endowment model is a family office organisational structure in which family assets are held in a perpetual trust. The model helps hold and preserve family wealth, instead of distributing it. This, in turn, helps hold the family together by keeping their financial interests united. And the model helps future generations be more successful by making resources available, while neither undermining them nor robbing them of their own need to work and support themselves. Only family members engaged in "productive behaviour" are eligible to sit on the Family Council.
- Preserving family wealth for multiple generations is not a science. Its an art. You are dealing with dozens of people with all kinds of complex psychological issues, relationships, and agendas. It is critical that you get everyone organised and on the same page. You need a self-perpetuating culture of prosperity. Or, to put it another way, you need to create such an

extraordinary system for holding onto old wealth and for building new wealth that even ordinary people can keep it going.

- The purpose of our trust is to:
    - Give support for family members starting new careers.
    - Fund family member educations.
    - Help support family members in the arts or humanitarian work.
    - Fund family member business ventures and start-ups.
    - Assist in emergencies.
- In return for these benefits, beneficiaries have the following responsibilities:
    - Helping guide the investments in the family portfolio as a member of the investment committee.
    - Participate as a member of the Family Council.
    - Helping manage the family property.
    - Helping protect and grow the family business in a manner consistent with family values.
    - Helping manage any family philanthropy.
- Family members have to earn their way as beneficiaries. And they have to make their own way in life and in their careers – just like everyone else. Different family members will play greater or lessor roles in each of these things, depending on their inclination and abilities. And these responsibilities will become more significant and complicated down the road.

The Family Mission Statement and Constitution

The idea is that successful families need a simple statement of purpose that everyone can get behind.

- The family mission statement should motivate your family members to want to be part of the family office project. All the other soft structures you put in place should centre on this document.
- It is critical that your family mission statement sound right to everyone. Make sure it reflects the genuine values of the family and makes clear the benefits of a family office structure for each family member.
- For your family mission statement to bring your family together, it has to include everyone – even family members who appear not to "fit in." Try to bring all family members into the process.
- The family constitution can clarify issues and provide more structure to keep your family together. The family constitution provides a mechanism for realising the goals spelled out in the mission statement. It is usually prefaced with a statement of your family's core beliefs, its values, and its more practical considerations, such as how the family aims to manage its wealth and run its business, if it has one.
- The Family Council typically drafts the constitution. It typically explains:
    - Who makes up the family.
    - Who makes up the Family Council.
    - How the family is governed.
    - How family money is managed (for example, choosing an investment director and the members of the investment committee.)
    - How family assets (for example, real estate) are managed and used.
    - When the Family Council meets and how it communicates.
    - The family's code of ethics.

  - How family conflicts are resolved within the family and how family members can avoid litigation.
  - A plan for changing the constitution, as necessary.

The Family Bank

The "family bank" is where your family can go for funding of entrepreneurial ventures, education, buying a home, or health care needs. These can be outright distributions, or they can be loans. Loans typically do not carry interest. But borrowers are required to pay them back in full.

- Loans can be a huge advantage for your family. They give them access to cheap funding. And they reduce the amount of costly outside debt family members need to take on.
- It helps you eliminate banking fees and also insurance charges. For instance, if you do not have a mortgage or car loan, you save a lot on the ancillary costs of those loans, not to mention the interest payments. Likewise, you can use the family bank in place of an insurance fund, lending money to family members to cover setbacks that would otherwise be covered by insurance. These savings allow family members to live better on less.
- There are no handouts. No bailouts. Family members must pay their own debts. In our family's case, we expect each family member to live on what they earn. But we do not mind helping them get started.

Leadership and Transition of Power

The leadership must be balanced and spread across each generation – or the family enterprise topples over.

- Some family members will be more suited to leadership roles than others. The best you can do is to start early, include everyone, and be consistent. Permanent leadership is one of the great secrets to preserving a family fortune over generations.
- The best way for a wealth creator to successfully transfer the reins of power is to oversee that transition themselves while they still have their wits about them.
  - For the wealth creator, this means a transition from being the "commander in chief" of the family to an elder.
- Elders serve as sort of a judicial branch of the family. Elders can also help resolve family disputes and make sure the family is following its stated values and goals.
  - Beyond settling disputes, elders should transmit the family culture from generation to generation by telling the family stories and being the family history. The elders also help with the spiritual development of the family, religious or otherwise. They also help preserve family ethics.
- In each generation, there needs to be a leader of the council, someone who takes a little more responsibility for making sure things stay on track.
  - While members of the Family Council are equal, someone in the second generation needs to fill a leadership role.
  - The next inline should be apprenticed to the current leader. They should not receive special treatment or privileges not agreed upon by the Family Council. The Family Council is a collective decision-making body. It should not have a president, but there should be a respectful and capable leader who can keep things on track. Each generation needs a new leader, the next inline.

Family Issues, Problems and Disputes

- The lack of family disputes can mean issues are simmering below the surface. These unspoken issues have a nasty habit of coming to the surface when there is a major family event, such as a death, a wealth transfer, or the sale of the family business. It is best to have the most senior members of the family (of course, still of sound mind), the elders, settle disputes. It is the role of the elders to find the consensus-building solution to the family conflicts. But if, for whatever reason, there are no elders to resolve the disputes, the Family Council must act as moderator.
  - There are relationships – and there is the problem. Moderators should emphasise the importance of maintaining healthy relationships and then deal with the problem based on its own merits.
  - Moderators should set a tangible, mutually beneficial objective that can be reached by the most desirable option of resolution for both parties. If no resolution is forthcoming, it may be necessary to bring in a trusted outside moderator. It is crucial not to let family conflicts fester.
- It is the job of the Family Council to protect the family wealth from threats. It should avoid judging individual family members on moral issues. For instance, the Family Council may decide that a family member who is a known drug addict may not be eligible to receive any funds from the family bank. It should try to keep its position as businesslike as possible. It needs to avoid "getting personal." Instead it should elaborate and enforce policies believed, by consensus, to be fair.

Forming a Republic

We urge you to operate on the basis of consensus, and universal consent, rather than majority rule. But it is up to you.

When a family reaches the family republic stage, it is a good idea for individual family units to meet separately to discuss the issues at hand before sending their representatives to meet with the Family Council.

The Investment Committee

The investment committee stays in regular communication and shares investment ideas. But with such an ultra-long-term time horizon, the committee does not do a lot of buying and selling. New investment committee members from each generation are trained and groomed from a young age. They learn about investing through educational programs and direct experience. They deliberate long and hard. They study. They think. There is no reason to make quick decisions in family money investing. There is plenty of time to learn. Just relax and take your time.

- Every family member should understand how money works – how you earn it, save it, and manage it. Investing in financial education is another crucial step toward successfully preserving wealth.
- So how do you get future generations to learn about managing money?
  - You give them a baseline education in personal finance and investing through courses, books, and websites.
  - You give them responsibility, such as a role in the family office or as a member of the investment committee.
  - You bring them into the picture of family finances – as early as possible.
- The best time to take these steps is when your children are in their early teens. It sounds strange, but you want to give them responsibility earlier than you think they are ready for it. Plus, take your children to investment programs. Read and discuss investment books. Critique

popular theories and fads. Do not invest in what Wall Street considers "conservative." But operate your investment committee very conservatively.

- Just like the Family Council, the investment committee needs a leader. Usually, the wealth creator of the first generation becomes the wealth strategist for the investment committee. Someone in each subsequent generation must take over that role.
- The next inline to the wealth strategist needs to have a thorough understanding of investment strategy and years of direct experience in investing. The next inline apprentices with the current wealth strategist. Its part of the wealth strategist's job to educate the other members of the investment committee and to train their successor.
- Some of the other duties of the wealth strategist are:
    - To hold brokers, wealth managers, and everybody involved with the family portfolio accountable for performance.
    - To establish clear investment objectives and goals.
    - To have a big-picture outlook that translates into simple and manageable investments.

Family Philanthropy

Philanthropy is a major component of most successful families and successful family offices. It is important for family members. It gives them a unified purpose and builds the family culture. It also helps them focus on properly administering wealth… and getting results.

- Our advice: Make it as personal and direct as possible. Control the spending carefully. See the results for yourself. Take responsibility for the outcome.

Chapter 9 – Families with Money

- Two brothers, Mike (Telemachus) and George Demoulas, the children of Greek immigrants, bought their parents' deli and transformed it into a modern supermarket chain. They made a promise to each other that if one of them died the surviving brother would provide for the other's family.
    - If the brothers had only defined what "take care of my family" meant, it may have saved the family from a lot of grief and a fortune in legal fees down the road.
- Once the focus of your family's productive life is gone, the demons start to come out. Never sell controlling interest of the family business unless there are no other options.
- Edward grew Guinness to be the largest brewery in the world. And he floated the business on the London stock exchange in 1886, generating £4.25 million, £556 million today. But he retained only 35 percent ownership. While highly lucrative, this event ultimately doomed family ownership of the business.
- Unless there is a good reason, do not dilute family ownership of the family business. And do not bring in outside management. Keep the family active and in control of the business. Its often at the core of your family's identity and its wealth-building strategy. Generally, its better to have control of a smaller business that you know than it is to have shares in a bigger business you neither understand nor control.
- The family businesses that are invited to join this group (Club des Henokiens) have been in business for at least 200 years. Other membership criteria include:
    - The family must be the owner or majority shareholder of a business.
    - One family member must still manage the company or be a member of the board.
    - The company must be financially successful, with annual revenues of more than $2 million.

- There are currently 38 members from around the world.
- Every member family has a story – and an amazing history. Think of the change that has happened over the past 200 years. These businesses have survived every calamity you can imagine. Having read all their profiles and a number of interviews with the current managers, a few things jumped out at us. First, the managers of these businesses, rotted in history and tradition, saw entrepreneurship and innovation a key to their success. For the business to last, there has to be a wealth creator in each generation. Incredibly, most of the families still own 100 percent of their companies. They are extremely protective of the family equity. And some had established restrictions on family members selling out of the business. But there is one thing above all else that bound these families together. They all developed strategies to preserve and enhance their family assets. That is, they all transferred their history, their legacy, and their values down through the generations. This has meant that each generation is ready to take on the challenges of the day and contribute to the success of the family enterprise. That contribution changes over time. But something of the family values and business ethos remain remarkably constant. The Henokiens will tell you that succession planning is critical.

Trying to hold on to control of the family wealth for too long without working out a succession plan with the rest of the family is a recipe for trouble.

Chapter 10 – The Family Stronghold

Revolutions happen. Where should you be now? We do not know. But we suggest that you have a bolt-hole somewhere – a refuge, a getaway, a family stronghold. Many things could go wrong. Earthquakes. Plagues. Volcanic eruptions. Wars. Bankruptcies. Hyperinflation. And – we would not rule it out – space invasion.

- Generally bad stuff seems to happen most often in cities. Why is that? Cities are where most people live. It is where governments are. And it is where the labour force is most specialised. The typical city dweller produces neither food nor energy. They sit all day in an office, completely dependent on others to provide power and food.
- As the division of labour goes backward, people also find they must tend to their own food and energy needs. Here is where it gets very tough for people who live in cities. They have no stores of Mason jars with food from their own gardens that they have canned themselves. They have no hams hanging in the barn or stocked away in the larder. They have no animals on the hoof that they can slaughter. They get no eggs from the chickens they do not have, and they can hardly go into the local park and shoot squirrels to make a pie.
- Generally, when the black swans come out, you are better off in the country – with country-boy skills, real friends, and family close at hand, and old-time farm supplies. We once met a fellow who had a keen appreciation for apocalypse. He was sure it was coming. So, he moved to Arkansas where, he said, “I’m protected by 300 miles of armed hillbillies.”
    - That is something else to think about. Not only do you have to worry about food and energy, but you also have to worry about your neighbours.
- We are elaborating on the benefits of having a family stronghold… a retreat… a bolt-hole somewhere. When the going gets tough, you need a tough place to go to.
- What do you need to survive a disaster? First, you need access to water. That is why it is a good idea to have your own private source of water; a well, a small, clean stream. Failing that you should have enough water stocked up to last at least a couple of weeks. Then you need to worry about food. Just as a precaution, you should maintain a stock of dried goods and

canned food. Enough to last two weeks is the minimum. A month is better. Then, rotate your stock – do not leave it untouched for so long it goes bad.

  - Having an inventory of basic food stuffs is essential. It will keep you calm. You will not be in desperate straits. It will give you time to carefully assess the situation and choose your best option. You will not do something rash.

- But what if the breakdown stays broken down for months? War… hyperinflation… a full collapse of the financial or political system… the crisis could take many months to run its course. In the meantime, supply and distribution systems may be severely or completely interrupted. You need a strategy.
  - That is where the family stronghold comes into play. First, you must be able to get there. We kept our tank full of gas, just in case. It took only one tank of gas to get out to our country house. We figured we would wait for the desperate mobs to leave the streets. Then we would drive out of the city and make our way to the country. Once there, we had food stockpiled in the pantry and firewood ricked up to the eves in the barn. There were cattle on the hoof in the fields and chickens in the henhouse.
  - Your stronghold should be a place where you can live almost indefinitely on local resources. It does not mean you have to have everything you need on your property. But you have what it takes to trade with your neighbours and friends to get what you need.
  - And you should keep on hand some small gold and silver coins. They could be useful.
- Since the beginning of the twentieth century, many people have gone to bed hungry. Tens of millions have died of starvation. But almost all deaths can be traced to the murderous intentions or incompetent administration of government.
- If you want to keep your head, keep your feet on the ground. Stay close to your roots, your base, and your family stronghold.
- War, revolution, internet bugs, real bugs, bankruptcy, hyperinflation there are so many things that could go wrong, it is hard to believe that at least one of them wont. In light of this, you should have a place where the family can run, hide, and survive. Where? The best place is a farm – a place not too far from where you usually are, easy to get to, and stocked with enough food and water to keep you going for a few months. Best bet is an old-fashioned pantry full of canned goods, chickens in the hen house, and a pig or two in the sty.
- Of course, if an asteroid strikes earth or if the Yellowstone volcano blows up or if a government goons through the countryside, as the Soviets did in the Ukraine, torturing peasants to find out where they had hidden grain, even a family farm of your own may not save you. But in the case of many other calamities, it might make the difference between life and death.
- On the positive side, a family stronghold can give you a richer family life. You need a place that gives your family a sense of identity, unity, and stability. Generations come and go. But places last. A place gives a family a sense of permanence, too.
  - Family strongholds help families develop their own culture… their own resources… their own histories. They are good places to get the family together for holidays, for reunions and to help family members learn to work together. They are places that you remember, no matter where you go or where you live. They are places where grandparents live. Where family portraits and family papers are stored. Places you think about. Places where you bury your gold. A family stronghold or refuge is also a good place to retreat to, to recover and think. It should be fully paid for, of course. You do not want to have to worry about it. It should be a real stronghold where you are safe. And where you are happy. So, if you lose your job, for example, it is a place

where you go back to, to take time to think about your next move. Or if you want to write a book or invent a new computer app or just try figure out what is going on in your life, a family stronghold is a good place to do it. It should be quiet, tranquil, and protective.

- It is a great thing when you can get the children to help. There is nothing quiet or tranquil about that. The noise of chainsaws and old diesel tractors. Hammering. Sawing. Clipping. Sweating. Swearing. Working together as a family is probably the best way to build a family and to hold onto family wealth.

Action Items

No.	Action	Ref.
1.	Create a sense of permanence within your family	Chapter 2
2.	Begin to think about and build your family's culture	Chapter 2
3.	Oversea your children's education to ensure they are also learning your family's values as well as important life skills	Chapter 2
4.	Agree not to dissipate or consume the family money	Chapter 2
5.	Agree on your family's vision – where would you like to be in 20, 50, or 100 years' time. Answer these questions: • What sort of family do you have? • What kind do you want? • What are you trying to achieve? • How do you want to govern yourselves and manage your money?	Chapter 2 and Chapter 8
6.	Create a succession plan and will	Chapter 2
7.	Create a family motto and crest to reflect your family's unique values	Chapter 2
8.	Plan regular family events, outings, and holidays	Chapter 2
9.	Calculate how much "F-U money" you need	Chapter 3
10.	Create an emergency fund	Chapter 7
11.	Create a perpetual family trust	Chapter 7
12.	Create your Family Council	Chapter 8
13.	Develop a family mission statement and constitution	Chapter 8
14.	Create your "family bank" and decide upon how you would like to use it	Chapter 8
15.	Create an investment committee	Chapter 8
16.	Develop education and mentorship programs for younger generations	Chapter 8
17.	Create the family philanthropic committee (if you want one)	Chapter 8
18.	Plan your first family meeting as soon as possible and continue to hold regular meetings	Chapter 8
19.	Create your family stronghold	Chapter 10