

Planning Matters



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Common pitfalls and challenges of intergenerational wealth transfer

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Throughout the world there is a proverbial saying that “Wealth never survives three generations.” In Canada and America we say “shirtsleeves to shirtsleeves in three generations.” In Lancashire it’s “there’s nobbut three generations atween a clog and clog” and Italians say, “dalle stalle alle stelle alle stalle” (“from stalls to stars to stalls”). The Spanish say, “quien no to tiene, lo hance; y quien lo tiene, lo deshance” (“who doesn’t have it, does it, and who has it, misuses it”). The Chinese say “Fu bu guo san dai” (“wealth does not survive three generations”) and the Japanese, “the third generation ruins the house”, or “rice paddies to rice paddies in three generations”. Scots say “the father buys, the son builds, the grandchildren sells and

his son begs” and Australians say “from goon to Grange to goon.” For Britons, it’s “sandals to sandals in three generations” where as far back as the 1700s this idea can be found in Dryden’s Fables Ancient and Modern, where even he writes, “seldom three descents continue good.” So why is this?

According to several studies including one by the US-based Family Firm Institute, there is a worldwide phenomenon of 70% failure rate in wealth transition from first to second generation; only 10-15% makes it to the third generation; and a paltry three to five percent of family wealth is passed



on to the fourth generation. That represents a failure rate of over 90% of wealth being transferred beyond the third generation. Some of the failure in wealth transfer arises from what many people would consider the “typical” sources of leakage: bad investment decisions, tax considerations, legal issues, inflation, and the natural dilution of assets as they are shared among generations of heirs. However, these actually represent only 15%.

85% of the failure is due to lack of trust and communication and a failure to adequately prepare the following generation.

What can a family do to overcome entitlement? Communicate. Be transparent. Be inclusive.

The traditional approach to succession planning typically focuses on training heirs in managing the technical aspects of wealth – the financial capital – such as tax minimization and capital preservation. Wealth is so much more than that. To succeed in succession, you should focus on the other forms of capital – especially the family and human capital. Spending time and energy in these areas will allow your family to prosper, grow and endure.

It takes hard work to succeed in intergenerational wealth transfer. The following generation have grown up with all the comforts and toys they desire and are somewhat distant from the work ethic and drive of the people whom created the wealth. Younger family members are often reluctant or not equipped, or both, to take charge of stewarding the wealth. Moreover, this can be accompanied by an attitude of entitlement.

What can a family do to overcome entitlement? Communicate. Be transparent. Be inclusive. Proactively engage the next generation. Some of the effective actions that we have

taken within our own family are to have family meetings and encourage family discussions. Such discussions include: defining what our family values are; knowing how to react when someone you meet only sees your family name (in our case, “Saputo”); learning how to be a responsible user of technology and social media; and the very important constellation of topics within financial literacy. We cover topics such as philanthropy, investment, the power of compounding, interest and the use of credit cards (spend only what you have and keep away from being in debt).

Our discussions also veer to where to go for a family vacation; what learning opportunities we can engage in together; sharing of stories and family games to strengthen our unity and encourage harmony even when faced with conflict and differences. What is important here is to engage the multiple generations. To enlighten and encourage the dreams and aspirations of each individual within the family. The key is truly open communication.

I believe that if we spend as much time preparing the heirs to receive the wealth as we do investing and managing it, we will succeed in mitigating many of the challenges faced in intergenerational wealth transfer.

Earlier I mentioned that wealth succession involves much more than financial capital – to succeed you must focus on the other forms of capital – especially the family and human capital. Let me further explain the concept of Total Wealth.

Total Wealth

The key concept of Total Wealth is that the most important assets of a family are in fact its individual members. Wealth itself can be understood as more than purely financial assets: in addition to quantifiable financial capital, a family’s total wealth includes qualitative components comprising of Human, Family, Intellectual, and Social Capital.

(a) Human Capital

The human capital of a family consists of the individuals who make up the family and measures their physical and emotional well-being as well as each member’s ability to find meaningful work and establish a positive sense of identity. When speaking about human capital, it includes effective

parenting and grand-parenting, communication, consensus building, team building, conflict resolution, leadership training, values, morals and ethics, and goal setting.

(b) Family Capital

Family Capital is the family members’ relationships with each other and their shared values, vision and mission.

(c) Intellectual Capital

The intellectual capital of a family represents the sum of the knowledge gained through the life experiences of each family member. Intellectual capital includes family members’ academic successes, career growth, artistic achievements, financial literacy, and the ability to learn and teach what they know. Intellectual capital also involves the work done in establishing governance and policies for the enterprising family’s succession.

(d) Social Capital

Social capital refers to the family’s relation to the larger community. It also refers to the family’s ability to share and sustain an intention that transcends each member’s individual interests, often in the form of volunteer and philanthropic activities.

(e) Financial Capital

Financial capital represents the property that the family owns. It comprises all branches of the family enterprise, incorporating operating business assets, financial assets (cash, public securities, privately held company stock, interests in private partnerships), real estate assets, philanthropic assets, heirloom assets, and deferred assets. Financial capital is the tool that facilitates the cultivation of the other forms of capital.

Developing human capital is the core focus of my coaching philosophy, where my goal in working with clients is to help them enhance their self-confidence, clarify vision, values and purpose, resolve conflict, improve communication, encourage transparency, set focused, smart goals, and push them past their comfort zone to amplify their total wealth. By helping families look beyond the financial aspects of intergenerational wealth transfer, they have the greatest chance at success.

About the Author:

Danielle Saputo is a professionally-trained Co-Active Coach and ICF-Certified Legacy Coach and Family Advisor who helps individuals and families in the “next generations” of affluent families – people who often struggle to define themselves in the shadow of their parents’ and/or grandparents’ achievements – to step out into the sunshine and live their most meaningful and authentic lives. With extensive coaching and personal experience as a member of the third generation of an affluent Canadian family who created an iconic global foods company, Danielle’s personal commitment is to provide her clients with accountability, understanding

and support on their journeys of self-discovery. Her coaching mission is to help every client live his or her legacy with confidence.

Danielle earned a Bachelor of Commerce and a graduate degree in Institutional Administration from Concordia University, and completed wealth management courses at the University of Toronto’s Rotman School of Management and the John Molson School of Business in Montreal. An Accredited Certified Coach through the International Coaching Federation (ICF) and The Coach Teaching Institute (TCTI) with designations in Emotional Intelligence and Legacy Coach, she also trained with the Co-Active Training

Institute (CTI) group in co-active coaching.

Danielle is president of Danuto Holdings and manages her family’s wealth. She is a member of the Grove Society executive board and a trustee for the Lakefield College School. On the home front, Danielle organizes and leads family meetings, creates multi-generational games and coordinated the writing of a family values book. Her focus is on building a family legacy and fostering financial literacy in the next generation.

She lives in Ontario, Canada with her husband and three daughters and can be reached through her coaching website at www.DanielleSaputo.com.

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