THINKING SLOW
When Life's Changing
FAST

Financial Planning in Times of Transition

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THINKING SLOW *When Life's Changing* FAST

Financial Planning in Times of Transition

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A WEALTH PLANNING FIRM

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PART I

WEALTH MANAGEMENT IN TIMES OF TRANSITION


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CHAPTER 1

Who This Short Book Is For and What It Can Help You Accomplish

Have you recently retired or is retirement rapidly approaching? Have you sold your business or are you considering doing so? Are you newly married or divorced? Are you dealing with the death of a loved one? Are you the recent recipient of a financial windfall?

If you answered yes to any of these questions, you share a common trait with millions of Americans—your life is in transition. And chances are, your money is in transition as well. Major life transitions are times of financial instability, and the decisions you make at these moments have long-lasting effects.

This short book is designed to help you navigate your life transitions by making wise financial decisions during times when wisdom can be hard to come by.

The book's premise is a simple fact:

Life transitions present enormous financial opportunities and challenges.

This may seem like an obvious statement. Perhaps less obvious are the following two separate but related truths:

1. *Financial decisions made during significant life transitions have an outsized impact on our long-term wealth.*

2. *During periods of transition, we are often the least equipped to make good decisions.*

Understanding these two truths, and more importantly, understanding what to do about them, can prevent years of negative financial consequences and unnecessary confusion. It can make your own life, and the lives of your family and loved ones, easier and richer—not just financially, but emotionally as well.

When life changes fast, we are often required to make decisions that will impact our financial lives for years to come, as well as the financial lives of generations to follow. Yet, as human beings, we are emotionally affected by the instability of transitions in ways that undermine our decision-making capacity. And worst of all, we are often unaware that our judgment is impaired, "blind to our blindness,"[1] as Nobel Prize-winning psychologist Daniel Kahneman puts it. This book draws on the latest research by Kahneman and others to help you shed light on your own decision-making processes and how to make smarter choices during just those times when it is most difficult to think clearly.

In our many years as wealth managers, we have all too often been in the position of attempting to help our clients repair the financial damage done during a hasty divorce, an impetuous investment, or a poorly managed influx of cash. We hope that by bringing together well-developed financial acumen with a deeper appreciation of human psychology, this small book will act as a preventive measure, helping individuals of all financial shapes and sizes become better prepared for the challenge of change. To borrow Kahneman's term, it is designed to teach you how to "think slow" when life is changing fast and money is changing hands.


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CHAPTER 2

The Challenge of Change

Great minds have long pointed out that perhaps the only constant in life is change. Buddhists call this “the law of impermanence.” The Greek philosopher Heraclitus once wrote, “All is in flux and nothing is stationary,” which is why he also famously noted that you cannot step into the same river twice. But whatever great thinkers we invoke to give us insight into the ever-changing nature of reality, the fact remains that human psychology does not always appreciate this truth, much less prepare us for it. Despite all evidence to the contrary, we tend to stubbornly assume that tomorrow will be like today…and the next day…and the next.

Nothing, of course, could be further from the truth. Let’s consider just a few prominent examples. Sooner or later, we’re all going to reach an age where we transition from full-time employment into a new phase of life. Right now, a huge segment of the population is undergoing this dramatic transition, as the baby boomer generation reaches retirement age. If you were born between 1946 and 1964, you’ll be one of the 8,000 to 10,000 people per day—every day!—expected to retire over the next couple of decades. The better you are able to handle the financial challenges of that particular transition, the better off you and your family will be.

Another all-too-common transition is divorce. None of us anticipate it when we walk down the aisle, but the reality is that roughly half of all American marriages end in divorce. And that figure only gets higher for remarriages, reaching 60 percent for second marriages and over 70 percent for third marriages. Divorce has enormous financial ramifications, and these must often be negotiated in an emotionally charged climate.

On a more positive note, a transition many of us can anticipate is an inheritance, or the opportunity to pass on our wealth to the next generation. Many baby boomers are currently inheriting the wealth of their parents, a turnover of about $12 trillion. But as Bank of America's Sarbjit Nahal and Beijia Ma point out, "A second and even larger wealth transfer from the boomers to their heirs is starting now and will continue over the next 30 to 40 years."[2] The total assets involved are expected to amount to $30 trillion—the biggest transfer of wealth in human history. How will their beneficiaries handle a massive infusion of cash?

If you are an entrepreneur, a transition you may well encounter someday is the sale of your business. In the first three quarters of 2014, almost 6,000 small businesses were sold in the U.S. Such a sudden influx of cash—whether it is $5 million or $50 million—represents an important moment in the life of a business owner. It's a moment for celebration, but it's also a moment for answering some important questions:

- What do I do with my newfound wealth?
- What are the tax implications?
- What investments, if any, best fit my lifestyle and monetary needs?

- How does this money—money that I've accumulated over many years of effort—impact my retirement, my children, and my future?

For those working in the technology sector, a similar transition may occur if a company goes public, offering employees the opportunity to cash in some or all of their stock options. Silicon Valley is rife with tales of people becoming overnight multimillionaires. Likewise, the sale of a significant piece of real estate can lead to sudden wealth, with all its attendant questions.

A transition we can all count on experiencing at some point, however much we may try to postpone it, is serious illness or death—either our own or that of a loved one. Approximately 90 million Americans are living with a serious or life-threatening illness, and this number is expected to more than double over the next quarter century. How will you plan for unexpected medical expenses or, worse still, a sudden death?

These are just a few of the common transitions many of us will encounter in our lifetimes. Some are cause for celebration, others for grief. But what they all have in common is that they invariably involve *money changing hands*, or put differently, *money in motion*. What these transitions also have in common is that they are emotionally destabilizing. Are you ready to make smart financial decisions in the throes of grief or the euphoria of sudden wealth? Who can you trust to manage your money wisely when the very foundations of your life may be shifting beneath your feet?

To help you navigate such moments, it can be helpful to distinguish among three types of transitions:

1. *Planned and scheduled*—we know they are coming and we know *when* they are coming, like retirement or the sale of a business.

2. *Planned but unscheduled*—we know they are coming but we don't know when, like an inheritance or an IPO.

3. *Unplanned and unexpected*—we are blindsided by these events, like a divorce, a sudden premature death, or a surprising financial windfall.

Sudden Wealth: A Blessing or a Curse?

Forty-seven year old Billie Bob Harrell Jr. had struggled for years to support his wife and three kids working low-paying jobs when he got a lucky break, winning the $31 million Texas Lotto jackpot in June 1997. He quit his job at Home Depot and took his family to Hawaii. He was generous with his unexpected wealth, donating tens of thousands of dollars to his church, buying cars and houses for friends and family, and donating hundreds of Thanksgiving dinners to the poor.

Unfortunately for Billie Bob, things went downhill from there. He found himself the target of unwelcome attention from strangers, having to repeatedly change his phone number to avoid demands for donations. He made a bad deal with a company that offered him a lump-sum payment in exchange for his annual checks, reducing his winnings significantly. Less than a year later, his wife left him, and then, just 20 months after the day that was supposed to have ended all his problems, his son found him dead from a self-inflicted gunshot wound. Shortly before his death, he told his financial advisor, "Winning the lottery is the worst thing that ever happened to me."

Billie Bob's story is by no means an isolated case. There are countless similar tales of lottery winners who squander, gamble, or

are cheated out of their unexpected wealth—so many that it's been dubbed "the Lottery Curse." And while winning the lottery is not a transition most of us anticipate, such stories serve to illustrate the challenges inherent in what should be even the most positive of life transitions involving large sums of money. An unexpected, unplanned transition like this is perhaps the most difficult type to navigate. How would you manage one if it happened to you?

In an ideal financial world, we would encounter only "planned and scheduled" transitions and occasionally a "planned but unscheduled" one. Unfortunately, life is not always so simple, and "unplanned and unexpected" transitions can and will occur. These are the most challenging events to navigate wisely. In such moments, we are wired to speed up rather than to slow down, to jump to conclusions rather than take a deep breath and hold our fire. This book is designed to help you better prepare for the unplanned and unexpected, and better respond to those transitions you *do* have the luxury of planning for. It will help you learn to "think slow" and take to heart the principles of sound financial management even at those times when everything around you is in flux.


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CHAPTER 3

"Thinking Slow": The Secret to Successful Transitions

Life transitions are complicated, in part because of their emotional power. We cannot expect ourselves to move through these periods of instability with perfect clarity and unruffled calm, easily reflecting on events with a balanced, rational perspective. We are inevitably caught up in their emotional complexity and volatility; and, like it or not, our judgments are swayed by how we feel. Understanding the dynamics of decision-making in such moments can help us to anticipate our own limitations, seek appropriate outside guidance, and put in place effective safeguards against some of our less than desirable human proclivities.

Fortunately for us, in the last half-century, behavioral scientists have conducted a great deal of research exploring the science of decision-making. This science underlies our approach to guiding individuals through financial transitions, so let's take a moment to examine some of the key ideas in this body of knowledge. We'll be referring back to these concepts repeatedly as we lay out our core three-part strategy in Part II of this book.

In his seminal book on the subject, *Thinking Fast and Slow*, Kahneman summarizes a great deal of this research, much of which he was personally involved in. He explains that psychologists now widely consider human beings to have two "systems in the mind," or ways of thinking, that we employ to respond to the world around us. He calls these parts of our mental apparatus System 1 and System 2. Both are necessary and play different functions in our daily lives.

> ***System 1*** is the part of our mentality that comes to quick decisions based on intuitive assumptions. It operates outside the realm of effortful, mindful, logical analysis. System 1 "thinks fast."
>
> ***System 2*** is the reflective, thoughtful, deliberate, rational part of our mental makeup. It moderates System 1 and decides when and where to accept the conclusions of System 1. System 2 "thinks slow."

In Kahneman's understanding, System 1 is designed for handling those tasks that do not need active, engaged analysis. If we find ourselves brushing our teeth or driving our cars with little active mental effort—almost automatically—it is because System 1 has taken over that task. System 1 makes decisions "faster than thought." It is impulsive, making intuitive judgments about what is happening around us that do not seem to need the engagement of System 2. It requires little effort, or no *cognitive load*, as behavioral psychologists would say.

However, if we have to sit down and solve a math problem, write a business plan, organize our finances, or maintain a coherent train of thought, System 2 kicks into gear. When we question our own conclusions or search for evidence or information to help understand a problem, financial or otherwise, we are using System 2.

Certain activities can begin as System 2 activities, but through prolonged repetition they become relegated to System 1. For example, driving requires great conscious and deliberate attention when we are first learning, but it can be done with relative cognitive ease once we have enough practice. When we are first learning math, simple addition can take real effort, but the adult mind needs no train of thought to add 2 + 2 or multiply 4 × 4. System 1 has taken over those tasks. Indeed, one of the signs of a true expert on any subject is that person's capacity to respond, within his or her field of expertise, from an internalized, predigested, pre-thought cognitive structure. In other words, much of the expert's knowledge and expertise now lives within him or her as System 1 intuitions. That person no longer has to think about it; he or she just *knows*.

According to Kahneman, "one of the main functions of System 2 is to monitor and control the thoughts and actions suggested by System 1."[3] System 1 thinks fast, comes up with a conclusion—"this is good" or "this is right" or "this would be a great thing to do"—and then System 2 decides whether that is a conclusion worth acting on. But that monitoring and controlling behavior takes real effort, and we tend to ration that effort and attention carefully. System 2 can be a "lazy controller," hesitant to expend precious energy. And this is particularly true when we are tired, hungry, disturbed, distracted, or otherwise emotionally less available to respond with the energy that System 2 engagement demands. In those moments, we become more susceptible to "superficially attractive answers." It takes much more effort at times like this to "think slow," and our decision-making capacity suffers as a result.

Which brings us back to one of the premises of this book:

During periods of transition, we are often the least equipped to make good decisions.

Academic research into decision-making affirms this fundamental premise. In times of transition, when life is shifting and changing around us, we are ill-suited to be our own best advisors. It is one of the ironies of life that the very moments when we most need to make good decisions are the times when good decision-making most eludes us.

But here is the good news: Knowing this truth is itself a significant victory. Humility, in this case, is a strategic advantage. It can keep you from learning these lessons the hard way—and losing money in the process. It will help you to seek out quality professional advice—to find someone who can bolster your System 2 capacities and support you in planning ahead for expected and unexpected transitions. It can remind you to listen to that person and embrace rational, objective input when your own mind is otherwise occupied. It gives you the wisdom to "think slow"—or find someone else who can do it for you. The world is full of "superficially attractive answers" that could end up losing you money and cost you dearly in other ways as well. But if you "think slow" when life changes fast, you and the people you love will be happier and wealthier for years to come.

PART II

PLAN, PRESERVE, PROSPER: A THREE-PART STRATEGY


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CHAPTER 4

Plan: Preparing for the Expected and the Unexpected

As we've previously discussed, some major life transitions can be scheduled and planned for, like retirement or the sale of a business. Others can be planned for even though we don't know precisely when they will occur, such as an inheritance. And then there are those transitions that are largely unexpected. These are the hardest to plan for, but there are still steps we can take to be prepared and ways we can safeguard our wealth in such cases. We'll be discussing these cases in the following chapter, *Preserve*. However, the first step in our transition management strategy is to *Plan* for all those events we do have the power to predict.

In his seminal book, *The Art of War*, Chinese military theorist Sun Tzu wrote, "Ultimate excellence lies not in winning every battle but in defeating the enemy without ever fighting." He implies that the planning phase of battle is in many respects far more important than anything that happens once the swords start swinging: "The highest form of warfare is to attack strategy itself."[4] Even if adjustments have to be made on the battlefield or unexpected events occur, how a leader has prepared for those moments will largely determine his capacity to respond appropriately and effectively to the changing tides of fortune on the battlefield.

There is an obvious analogy here to financial planning for times of transition. Indeed, the financial impact of transitions on our bottom line is often decided long before circumstances change or money starts moving around. How prepared are we for things to change? How much have we planned for the expected as well as for the unexpected?

Having the right kind of comprehensive approach enables you to metaphorically "win the battle before it is fought." In this case, it allows you to ride the ups and downs of transitions—expected and unexpected—to preserve your wealth in the short term and to prosper in the long term. Even when life surprises you—when a sudden transition knocks you for a loop—you'll be adjusting course from a position of knowledge and strength, not panic or hope.

Comprehensive wealth management for affluent individuals and families, then, means three things. First, it means having a big-picture understanding of where you are financially. Second, it means having a good idea of the challenges and opportunities that are likely to come down the road. Third and finally, it means being as reasonably prepared for those possible and probable futures as you can be, including the challenges and opportunities that you really can't know about ahead of time.

The Formula for True Wealth Management

"Comprehensive" is a key word here. In our previous book, *The Obvious Solution: Custom-Designed Financial Peace of Mind*, we highlighted the formula for true wealth management.

WM = IC + AP + RM

This equation stands for: *Wealth Management = Investment Consulting + Advanced Planning + Relationship Management*. We will look at each of the three legs of this foundation for good wealth management in turn.

Investment Consulting

The first leg, Investment Consulting, is the one that everyone thinks about when it comes to financial planning. That's what a wealth manager is supposed to do, right? Manage your investments. And that's certainly important—a critical part of comprehensive wealth management. We will discuss this further in Chapter 6, *Prosper*. But when we talk about negotiating financial transitions, other elements immediately come into play that highlight the second and third variables in the formula, *advanced planning* and *relationship management*.

Advanced Planning

Advanced planning means that you have adopted the wisdom of Sun Tzu. You are doing what you can to prepare for whatever changes are going to meet you over the horizon. It means that you are asking the right questions about your financial life, questions that touch on much more than how much money you might have in the stock market or in real estate. Questions like:

- What are my goals?
- What legacy do I want to leave to my children and grandchildren?
- What kind of lifestyle do I want to have when I retire?
- What do I value and how can I charitably support organizations that reflect those values?

Asking these kinds of questions empowers your planning. Too often we separate the financial areas of our lives from everything else—our work, our families, our careers, our passions, and our legacies. In truth, wealth management is intrinsically connected to all of these aspects of life. And so advanced planning means that you are examining your wealth and your future in a more integrated way. It connects you to the larger goals of your life and the impact of your legacy. And nothing shapes your long-term legacy like the way you manage your wealth through the transitions of life. How will you prepare for retirement? How will you take care of your significant other after you have passed? How will you plan for the passing of the torch from one generation to another? How will you ensure that a financial windfall today allows you and your loved ones to prosper for many tomorrows? Advanced Planning, especially when undertaken in partnership with true wealth managers, helps you ask the right questions.

No one has the capacity to control the future, but you do have the ability to control your responses to even unexpected events in ways that reflect your values and your financial goals. In this way, advanced planning can help shape and structure your life to create the best outcomes you can envision. And when life deals you an unexpected hand, you will be more ready to adapt to the challenge, with the flexibility to bend and nudge the future in a favorable direction. Sometimes, that makes all the difference. Advanced planning is the foundation of good transition management.

Relationship Management

“Relationship management” is the final piece of the wealth management formula. This points to the need to assemble the right team of experts to help with your financial planning, and ensure that they are in communication with each other. When planning for major life or financial transitions, expected and unexpected, having all of the necessary information is critical, as is having the right expertise in the room. And in any set of relationships, communication is key. Indeed, it's all too common for one person to have an investment expert, an insurance advisor, a tax accountant, a retirement manager, and a business coach—none of whom talk to each other!

Smart relationship management means that you take it upon yourself—or delegate the responsibility to a true wealth manager—to make sure everything connects, that you have an integrated view of your financial situation, and that your planning takes into account all of the relevant expertise. This is especially important when it comes to planning for transitions. Yes, your business advisor might have great advice about how to manage your company in relationship to an upcoming IPO, but he or she may know little about the tax implications on your portfolio. Or your divorce attorney may have encyclopedic knowledge about the relevant law in your state of residence but may be a novice when it comes to understanding the value of your real estate investments. Perhaps your investment advisor has been a master at conservatively managing your portfolio, but he or she doesn't understand the best way to structure a generational wealth transfer to your children and grandchildren.

We all need someone to talk to as we negotiate times of transition. Of course, in the best-case scenario you would have a comprehensive wealth manager to speak to, someone who has the 360-degree view of your financial life and can take some of that burden off of your shoulders. We will discuss this more in Chapter 5. Regardless, good relationship management means that you have a trusted team of experts to call on—you are assembling the right people, getting the right advice, connecting them in the right way, and doing so at the right time.

Planning for the Expected: When Time Is on Your Side

Planned and scheduled transitions are the low-hanging fruit of transition wealth management. Simply put, you know they are coming. You can even control or predict, to some degree, *when* they are coming. That knowledge potentially makes all the difference.

Retirement

Let's take a look at what is perhaps the most common financial transition: *retirement*. If we're healthy and fortunate, most of us will reach that age—whether it is 55, 65, 75, or 85—where we decide to put aside the cares and burdens of the world of work and begin to partially or completely live off of the capital that we've accumulated during our lives (as opposed to money we are earning in real time). This transition is perhaps the single biggest financial story in the country right now—as we said earlier, 8,000 to 10,000 people a day are retiring!—and a cultural transition that will be playing out for years to come. Retirement is like a big target that we have several decades to aim for, work for, plan for, and save for. That time horizon allows us plenty of time to think slowly and carefully about our future. It provides us with plenty of space to find good professional advice about the future of our hard-earned money. And for the most part, that's a good thing. In fact, ironically, we may have too much time.

For too many of us, the slow timescale of approaching retirement can dull the urgency of planning, making it easy to put off adequate saving. It can allow us to maintain a sort of vague ignorance about the future of our financial situation, good or bad. Yes, our System 2 mind may know the importance of planning and saving, understand the advantages of getting good professional advice, and thinking ahead to the future. However, the day-to-day demands of life, work, and family make it oh-so-easy to put off that planning, saving, and thinking ahead just a little longer—another day, another month, another year, or even another decade. Slowly, yet suddenly, retirement looms. The clarity and simplicity of a carefully planned and expected transition is lost and we find ourselves scrambling to understand the impact of retirement on our overall financial situation.

Therefore, the key to a good retirement is to start planning now. However old you are, however much money you have, however high or low your income is, start planning—in whatever way fits your situation. That may simply mean undertaking a comprehensive assessment of your situation. Maybe it entails finally calling your investment manager and asking to have a serious conversation about the future. Perhaps you are young and already financially successful, but you need to start saving a little bit every month to take advantage of decades of compound interest ahead of you. Or possibly it means that you need to start thinking about and considering the implications of selling a very successful business that you have spent decades building.

Whatever it means, the goal is still to make retirement a planned transition, one that fits as seamlessly as possible into the overall structure of your life. There are so many transitions in life that we can't control, don't expect, and take us by surprise. With good planning, common sense, and good professional advice, retirement need not fall into that category. That's why we call it the low-hanging fruit of transition management.

Sale of a Business

Another common form of expected transition is the sale of a business. Now this one can vary somewhat on the scale between expected and unexpected, but for the most part, a person selling a business will have enough understanding of the questions of "when?" and "how much?" to make it fall into the category of planned transition. Each business sale is unique, and there are few principles that apply universally. In general, it takes a great deal of hard work and planning to sell a business, and sometimes the owner's attention is so tied up in that process that he or she has little time to think about what comes after.

Indeed, often all the "planning" is focused on the sale with little attention left for the aftermath, both economic and psychological. But what comes after is important.

The sale of a business, once complete, represents both a life transition and often a major financial infusion. How will a person respond to what is often a massive change in life circumstance, and a large cash influx—all at the same time? A little foresight and planning, accompanied by some good professional advice, can go a long way toward helping us negotiate that transition with more grace and less grit.

Again, in the midst of selling a business, the demands on the owner can be overwhelming. It is not easy to step outside of your immediate circumstance and see the necessity for spending some time thinking a few steps ahead. But perhaps the most important advice regarding transition management when it comes to the sale of a business is to make some time for planning for the post-sale ramifications. And this includes how you are going to deal with the proceeds from all of that equity you have built up during those years of building a business. Perhaps you need to have an in-depth conversation with your tax accountant or your wealth manager. Maybe you need to think seriously about how to restructure your entire financial portfolio. Whatever the case, making the sale of a business more of a planned transition, as opposed to something you're fumbling and scrambling to deal with the moment the sale goes through, will pay real dividends and help ensure that you make the best decisions you can with the proceeds of your labor.

Planning for Unscheduled Transitions

In Homer's epic poem *The Odyssey*, the hero, Ulysses, encounters the mythical

Sirens, a group of women who sing so beautifully from the shores of their rocky island that sailors are hypnotized and enchanted by the sweet sounds of their song. Unable to break free from the grip of this trance, they are lured to their deaths on the treacherous rocks. The wily Ulysses wants to hear the music but also live to tell the tale, so he has his men put wax in their ears and then tie him to the mast before sailing close to the shores of the island. He instructs them to not listen to or heed *anything* he says to them once they are close enough to hear the deadly Sirens' voices. The men follow his orders and refuse to listen to his desperate pleas to untie him. They keep him bound until well clear of the Sirens' abode, honoring the deal they made when their captain was in a saner frame of mind.

This ancient myth has given rise to a psychological term, the "Ulysses Contract" or "Ulysses Pact," used to describe those deals we make with our ourselves (or with others) to guard against dangers that may exist in the future, protecting our future selves against situations in which they (we) may be predictably tempted to stray from current good sense. Ulysses Contracts, as neuroscientist David Eagleman writes, "allow people to proactively bind the options of their future selves."[5] Perhaps an alcoholic makes a decision never to shop at the grocery store that sells wine by the checkout line, knowing that if he finds himself there, he will be overwhelmed by temptation. Perhaps someone with a degenerative medical condition knows it will at some point incapacitate her decision-making, so she creates an "advance medical directive"—a set of legally binding decisions about how she is to be treated when she can no longer decide for herself. This same principle can be applied very effectively in helping us negotiate the challenges of financial transitions, especially those that are planned but unscheduled—we know they are coming, but we don't know when.

When clients arrive on the doorsteps of financial professionals asking for help with a major transition that they are anticipating at some unknown point in the future, they are often seeking some form of Ulysses Contract. They are asking for help in planning ahead—negotiating contracts with themselves and their advisors ahead of time—so that when the emotions and psychological challenges of a sudden transition swirl around them like the song of the Sirens on those rocky shores of yore, good planning and professional expertise will triumph over the temptation of spontaneous, ill-conceived decisions.

Good transition planning means that, like the wily Ulysses, we are thinking ahead of ourselves and binding ourselves to well-considered plans made in the best frame of mind. It allows us to "think slow" and make smart decisions now that will help us and those we care about when the unstable, unpredictable future comes knocking at our doors. The area where this quality is perhaps most needed—where we most need to make good decisions in the present to avoid chaos and confusion in the future—is when it comes to generational transfers of wealth.

Generational Transfers of Wealth

A wise man once quipped that the perfect will reads something like this: "Being of sound mind and body, I spent it all." However, for more affluent individuals or families, things are rarely so simple. There are all kinds of reasons why we may wish to pass our wealth on to our children and/or grandchildren, and it takes skill, intelligence, and advance thinking to negotiate that transition well. As we pointed out in Chapter 1, upwards of $30 trillion in the United States alone will change hands over the next few decades! Simply put, this is a generational transfer of wealth on a scale unprecedented in human culture. The need for good transition planning has perhaps never been more acute than it will be in the coming decades.

Ideally, generational transfers of wealth should be planned transitions, ones you have put careful thought into. This is especially true given that they are generally unscheduled—you generally cannot predict the timing of such a transition. It's easy to feel resistance to the idea of planning for events that will occur after your death. And yet, there are few greater gifts you can give to the next generation than a well-planned and well-managed transfer of wealth. The more wealth you have to transfer, the truer this is. Transfers of wealth in families are like transfers of power in politics. They are incredibly important and easy to do badly, and how you handle them, for better or for worse, will affect the next generation(s) for years to come, setting a powerful precedent for the future.

We have worked with many clients over the years and helped them to navigate the challenges and opportunities of generational transfers of wealth. There are at least four very important principles that have emerged from that work. We call them the four Cs of generational wealth transfer: Clarity, Competence, Continuity, and Communication.

> **Clarity.** This may seem like a simple point, but it is always worth restating. When it comes to passing the monetary torch to the next generation, ambiguity is the mother of many sins. How many familial lawsuits over money started with ambiguity and ended in animosity? Clarity means there is nothing in the estate plan that could be easily misinterpreted or twisted to serve someone else's agenda.
>
> **Competence.** A generational transfer of wealth is not a moment for learning on the job or winging it. When it comes to wills,

trusts, and estate plans, and how to manage a family's wealth through the complicated process of a generational transfer, competence and experience are paramount. Avoiding lawsuits, unnecessary taxes, and unnecessary fees all require competent planning by someone who knows the territory. Taxes alone are reason to extensively educate oneself and seek good professional advice. So much wealth can be preserved or lost based on tax code subtleties. Moreover, good planning means that competent professional advice is in place long before the actual time of transition.

Here again, the principle that a little planning can mitigate a lot of suffering applies. The emotional instability that tends to accompany a generational transfer involving the death of a beloved family member is not the ideal climate for putting in place a transition plan or searching for good professional advice. It is the time to be executing on plans that have already been put in place. Knowing that your wealth management plan is based on sound financial principles and that you are prepared for a generational transfer of wealth will go a long way to making that difficult period not just the end of an era, but a good beginning to the next one.

Continuity. A generational transfer of wealth is a natural moment for heirs to break with family traditions and strike out on their own. Perhaps they will decide that they know better how the inheritance should be spent. Maybe they will decide to pursue new investment strategies with new advisors (See Box,

p. xx). Perhaps they have very different notions about the charitable priorities of the family than their parents or siblings. Whatever the case, this tendency to break with family tradition is both natural—new generations have new ideas—and potentially destabilizing. Understanding that, family leaders can plan for the kind of generational transfer of wealth that encourages a degree of continuity and stability.

When one generation bequeaths its wealth to the next, it is not just money that is changing hands; it is the very legacy of the family that is in transition. That transfer can be an important—perhaps the most important—moment for establishing future relationships between siblings. If you're preparing for that hopefully far-in-the-future moment when you pass on your family's wealth and values to your children, an "ethical will" is one option you might want to consider (see Box, p. xxx). A Wealth Mission Statement adopted by your family is another. The basic principle to follow, no matter the tactical strategy, is an emphasis on clarity and continuity, and the fourth principle of successful transfers of wealth—communication.

It's Not Always About the Money!

When trouble arises in generational transfers of wealth, we tend to always think about the money. We remember stories of wealthy siblings fighting in court over their inherited wealth. But according to aging expert Ken Dychtwald, that stereotype may be inaccurate. His research firm, AgeWave, has found that families are five times more likely to get into fights over personal and family items than they are

over money.[6] That means you are more likely to end up bitter at your sibling over your mother's paintings and your father's rare books than you are over what's in the savings account. What's the lesson for wealthy families? Again, clarity and communication are essential. Being clear about who gets what and why, and having conversations about that before someone dies, can go a long way toward alleviating familial conflicts for the next generation. So remember: It's not always about the money!

Communication. If at all possible, there should be no major surprises when it comes to estate planning and wealth transfers. One child should not find out after the death of a parent that she has been largely written out of the will, or that the nature of her inheritance is significantly different than expected. Heirs should not be suddenly informed that large amounts of money have unexpectedly been diverted to a charitable cause, or bequeathed to a distant family member, or worse still, a new and younger wife. It is not healthy to suddenly find out, after he has died, that the patriarch of the family actually squandered much of his wealth in unproductive real estate investments. While the importance of communication may seem obvious, it cannot be overstated, As Roy Williman and Vic Preisser point out in their book *Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values*, "The most important single issue that undermines successful transfers of wealth is the breakdown of trust and communications within the family unit."

Communication at all stages of the process can make a huge difference in preserving the trust between family members. Having open and honest discussions about the contents of the estate plan or will from the moment it is created, or even better, during the creation process, will establish trust and transparency. Keeping family members informed of any changes made, particularly after a parent remarries, is also key. Don't let a breakdown in communication lead to a breakdown in your family.

Do You Need an Ethical Will?

The right of a person to dispose of his property after his death through the leaving of a Last Will and Testament is a tradition that goes back as far as the Greeks. But recently a new kind of will has become popular with those seeking to pass on to the next generation something more significant than money and property. It is called an "Ethical Will." And while it can be used in different ways, the general purpose is to try to establish a context of values under which the money and property are being transferred.

Perhaps two parents are concerned about infighting between their children over the estate after their deaths. Maybe a father is concerned with how one son might spend his inherited fortune. If there is a strong family tradition of service and charity, it could be that it needs to be impressed upon the next generation. All of these situations might call for the establishment of an Ethical Will alongside the financial one. These documents pass on valuable lessons, a lifetime of concentrated wisdom, or a suggestion of expectations regarding the inheritance that can help give it context and allow for a much smoother transition.

Lauren Foster explains the concept in an article for *Barrons*: "It

could be a letter—ranging from half a page to a bound book—or a video recording. There are no rules governing what goes into it or when the contents should be shared with the heirs, but the idea behind it is simple: Convey values, not valuables."[7]

While not legally binding, an Ethical Will can nevertheless be a powerful reminder that the transfer of wealth from generation to generation is not just about money and property. It is first and foremost about the legacy and values of the family. Obviously, some lessons are best passed on while living. But if you would like an opportunity to infuse a generational passing of the torch with the family's values, an Ethical Will might just be the right thing for you.

Inheritance

We've been discussing how to handle generational transfers when you are the one bequeathing your wealth to your children, but you may also expect to be the recipient of an inheritance at some point in the future. While this transition also falls in the "planned but unscheduled" category, it is less within your control than when you are the one making the transfer. However, you can plan for it to some degree by encouraging your parents or other family members to take heed of the four Cs described above and be proactive in facilitating early planning. Beyond this, the best you can do is be prepared for how you will handle an unexpected influx of sudden wealth—a scenario we'll be discussing in the following chapter.

A Tale of Two Generations

John Smith is seventy years old, the youngest of five siblings. Twenty years ago, John's father died, leaving his children a parcel of land in North Dakota. The land had originally been a family farm, growing corn and soybeans, but oil was discovered there, raising its value to $10 million. The land was placed in a trust and John and his siblings became the trustees.

The siblings are close, and for the past two decades they managed the land with the help of a family attorney and a financial advisor, leasing it to an oil company. The land had sentimental value to them, and their mineral rights brought each sibling a certain amount of consistent, ongoing income. But now, the elder siblings are having health troubles and plans must be made for the future. A generational transfer of wealth is imminent.

The next generation has less emotional attachment to the land, and some of the younger family members have virtually no interest in continuing to own it. Unlike the five siblings, who lived close to each other and stayed connected, their children have spread out all over the country. Each family has its own financial advisors and attorneys, and very different personal circumstances and needs.

The challenges of transferring wealth to a new generation in this case are considerable. They include:

- ***Making decisions with fifteen trustees is unwieldy and legally complex.***

- **Several in the next generation want to sell the land; others would prefer to keep ownership.**

- **Different individuals in the next generation may have different attorneys, each representing the interests of a different faction of the family.**

- ***The bylaws of the trust do not account for the coming diffusion of ownership, or provide ways to resolve conflicts over selling the land.***

What works well for one generation is not always replicable in the next. John and his siblings need to sit down together and make a

careful plan for the transfer of the wealth that rests in their beloved family farm to their children, many of whom have never even set foot on the land. If they do it carefully, they could preserve family goodwill for decades to come. But timing is critical with such transitions.

If they wait too long, John and his siblings could lose their chance to make this a *planned transition*. If one or more of the siblings dies or succumbs to ill health, they may not be able to participate in the decision-making process. And their inaction may end up sowing the seeds of eventual family discord. The source of harmony and prosperity for one generation could easily become a source of conflict and pain in the next. John and his siblings cannot afford to wait. They need to "think slow" now or they may find themselves with no choice but to "think fast" when it's already too late. They need to engage advisors with comprehensive wealth management expertise to ask the right questions and ultimately make well-thought-out decisions. Their family's future hangs in the balance.


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CHAPTER 5

Preserve: Limit Your Losses When Money Is on the Move

No amount of planning can change the fact that transitions are both destabilizing and emotionally charged—whether positive or negative. Once you are in the midst of a transition, whether expected or unexpected, there are steps you can take to *Preserve* your wealth based on knowing the pitfalls of human psychology and our default decision-making processes. Life transitions are times when money is on the move. This might be in the form of significant outflows—as in a generational wealth transfer like we discussed in the last chapter—and it also could be in the form of wealth inflows. Ironically, it is often those times when we have a significant influx of wealth in some form that we must be extra vigilant to not lose it just as fast as we obtained it. "A fool and his money are soon parted," goes the old saying. Unfortunately, there are many ways to be foolish when it comes to large amounts of money. Financial wisdom can be hard won, but ideally, you don't want to have to go through the experience of losing your fortune before you wise up!

The most dangerous transitions with regard to losing money are those that fall into the "unplanned and unexpected" category. Examples of such transitions that include large wealth inflows might include an inheritance when a relative dies prematurely, receiving and accepting an unexpected offer to buy your business for a large cash amount, a divorce settlement that comes in a large lump sum, or simply a lucrative promotion or bonus. Sudden wealth in whatever form may sound like a blessing, and it certainly can be. But there are a number of very important lessons to learn if we want to preserve our newfound wealth for the long term and keep this blessing from turning into the proverbial curse. These lessons can also be applied to any of the transitions we've been discussing, but they matter all the more in situations that are unexpected.

Preserve Lesson # 1: Beware of Quick Decisions

The first rule when you get a sudden influx of money is simple: you don't have to spend it. In fact, you don't have to make any quick decision about your money. And you're likely to be much better off if you don't. Rarely has the "thinking slow" advice been more relevant than when it comes to an unexpected influx of wealth, by whatever means.

Receiving large inflows of money can be an intoxicating, exciting event. It can relieve stress and create the foundation for a new and different kind of lifestyle. But as we saw in the example of the lottery winners, it can also be the source of new problems and unexpected difficulties.

Quick decisions can include not just decisions about how to spend your money, but also decisions about how to spend your day. Perhaps you have gotten up and gone to work at 7 a.m. every day for twenty years in order to pay the mortgage and keep food on the table. One day, a rich elderly aunt dies and unbeknownst to you, she made you her sole heir. Now you have $10 million in the bank and no urgent reason to get out of bed at all. Yes, getting up and going to work may be a habit that you would dearly like to change. But making sudden and significant changes to your long-established daily patterns and habits can also be destabilizing. There will be plenty of time to establish new ways of living and to consider who you are (and want to become) in the context of acquiring sudden wealth. Be wary of too many changes at once.

This is especially true when it comes to financial decisions. Sometimes it's best to just put your new wealth into a savings account or a money market fund and let it sit until the time is right to make clear, competent, well-thought-out decisions about what to do with it. Give yourself time to consider, research, and talk to people who can truly help.

Susan Bradley, author of the book *Sudden Money*, calls this the Decision Free Zone, or the DFZ. She writes:

> The first instinct of many people is to invest all of their money immediately. There is nothing wrong with waiting awhile before you plunge into the stock market. In fact, all good financial advisors will agree that it is much better to accept the low rate of a money market account or a CD than to make hasty, questionable investment decision…. Be patient. Don't make long-term or unchangeable decisions. Better yet, don't make any decisions about your money beyond putting it in a safe place.[8]

The DFZ gives you precious time to think, and it keeps you from making poor decisions in the heat of the moment. A few temporary months of earning negligible interest in a savings account or CD is far preferable to the chance of making a quick and questionable decision that could put significant amounts of your newly acquired capital at risk. The gods of finance will forgive you (and perhaps even applaud).

"Orchestrated Procrastination"

Decisiveness is not always a virtue. Sometimes dragging your feet over a decision is the best course of action to take. Billionaire entrepreneur Richard Branson calls this "the art of orchestrated procrastination." In his recent book on leadership, *The Virgin Way*, he describes it as, "an acquired discipline whereby the first thing to be addressed as part of the decision-making process is timing. Is it a 'carpe diem' situation or not? If you don't seize the day, might the window of opportunity close…? If you know you have the luxury of some time to play with, then make it work for you."

Making it work for you means taking a deep breath, and taking the time to "think slow" and understand the full ramifications of the decision you're about to make. Branson gives an example of a deal his company was considering about a decade ago with Goldman Sachs. "Some of our Virgin Money people wanted to jump on the deal but, never having previously heard of the commodity in which they wanted us to invest a sizable sum of money, I urged that we drag our feet for a while."

To cut a long story short, after doing his research Branson decided to pass. "Not long thereafter," he recalls, "we felt very glad we'd passed on the deal. At the time, no one outside of financial circles had ever heard of the term 'subprime mortgages,' but that all changed with a vengeance in 2007…. On this occasion our orchestrated procrastination had saved us a lot of money—and probably a chunk of our good reputation as well!"[9]

Preserve Lesson # 2: Be Mindful of Emotions

Are you the recipient of sudden wealth? If so, your life is about to change, and your emotions are going to change with it. It's quite possible that a new level of instability is about to enter your emotional life. Don't worry; nothing's wrong. Eventually things will calm down. In the meantime, expect elation, sadness, excitement, euphoria, confusion, and even guilt. None of these emotions need indicate anything about the person that you are. None of them are inherently bad or good. None of them mean that there is an immediate problem to be solved or decision to be made. Sometimes the best advice is to weather the storm. You might feel out of control, like your usual boundaries are suddenly not there. Like Ulysses, sometimes there is nothing to do but tie yourself to the mast on that rough sea of transition and get used to the ups and downs of a new situation. Or perhaps you feel perfectly calm, and that's fine too.

The key is to be mindful of your emotions without necessarily needing to externally respond to them in any way. Be aware of their changing nature, and watch how your System 1 mind jumps to conclusions about this feeling or that event. Having new wealth is a reality that can take some time to get used to. Don't worry if it doesn't feel natural right away.

Preserve Lesson #3:
Go Slow with New Relationships and Partnerships

Thinking slow when it comes to sudden wealth is not just about your own thoughts and actions. It also includes the thoughts and actions of others who would seek to help you negotiate the financial transition. Now, you may have the most knowledgeable and well-intentioned friends and family, and they may truly have your best interests in mind. But sudden wealth will affect not just your disposition and decision-making capacities, but the disposition and decision-making capacities of those who are close to you as well. They are likely to offer all kinds of advice and suggestions for how you should manage or spend your money. In the face of so much uninvited input, the right choices and the best courses of action might not immediately be clear. While your System 1 mind is always ready to jump to conclusions—this is great! this is terrible!—the best course is slow and measured. Yes, fortune may favor the bold, but when you have a fortune, even a small one, it's good to also remember that discretion is the better part of valor!

One of the wonderful things about having wealth is it opens up all kinds of opportunities in your life that were simply not available before. New opportunities in business, philanthropy, travel, and lifestyle are all a desirable result of having more wealth, and new relationships and partnerships are sure to be part of that equation. "Going slow" doesn't mean being suspicious of every opportunity or approaching every new friend with suspicion. It does not mean that you should retreat into solitude and embrace your inner hermit. It simply means that you have to give yourself some time to negotiate the landscape of this transition, to understand the promises and pitfalls inherent in being a newly minted high-net-worth individual. Your future self—healthy, wealthy, and happy—will thank you for it.

Zen and the Art of Transition Management

In the midst of a transition, sometimes the best financial advice is counter-intuitive:

Do nothing.

Imagine for a moment that you sell a business. Let's say that business was worth $7.5 million. Your bank account is suddenly a lot bigger, and you think to yourself: "Now that I've got it, I should do something with all of this cash."

As it turns out, you are not the only one to have that thought.

Suddenly, friends and family have lots of brilliant "can't lose" ideas about exactly what you should do with all of your newfound money. Your brother-in-law has a friend with a real-estate project that is "guaranteed to sell." Your nephew's tech startup is going to be the next Instagram if he can just get enough cash to build the app. Your mother swears by her stockbroker, who also happens to be her next-door-neighbor's son. Your conspiracy-theorist uncle thinks you should put everything in gold before the global economy crashes. Overnight, it seems, people around you have been transformed into confident and persuasive investment gurus.

But here's a piece of advice none of them will be offering: *Do nothing.* **Sometimes the best decision you can possibly make after an influx of sudden money is to simply leave it alone for a while, safely parking it in cash (a savings account) or cash equivalents.**

Take your time. Don't let anyone pressure you into jumping into investments or partnerships. Resist large purchases. Let the elation and stress of your cash infusion come and go, and come and go again. Get used to your wealth—emotionally and psychologically. Consider the newfound freedom and responsibility of having so much money at your beck and call. Let your friends and family get used to your new status as a high-net-worth individual. Let a thousand brilliant ideas arise and die in the eye of your mind. Seek good professional advice. Get a second opinion or even a third. And sooner or later, you'll be ready to make informed, sensible, long-term decisions.

You may discover that doing nothing was the best decision you ever made. It can allow the emotions of a significant life transition to normalize. It can allow your System 1 mind to settle down so your System 2 mind can kick in and you can begin to "think slow" about your fast-changing finances.

Preserve Lesson #4: Consider Your Wealth Management Goals

When it comes to managing sudden wealth, it’s not just about the amount; it’s about the change in what you are used to. Susan Bradley defines “sudden money” as any amount of money that is significantly more than you are used to having. It takes discipline to be aware of how easy it is to let your spending simply expand to match the new capacity of your bank account. Indeed, anyone who has ever seen their income grow modestly knows how easy it is for extra cash and savings to quickly disappear as spending imperceptibly increases.

Having new wealth means having new freedom and opportunity. But sooner or later, lots of decisions will need to be made about how you want to approach life in a post-windfall era. No one can tell you exactly what to do or how to do it. Whenever anyone comes to our firm after receiving, through some means, a large amount of money, the first thing we recommend is to spend some time thinking about your wealth management goals. Perhaps you have always wanted to travel the world, take care of your grandchildren, provide for a nephew’s college fund, purchase a ranch in Montana, or become an social investor in your local community. Maybe you simply want to avoid taxes and pass on as much wealth as possible to the next generation.

New wealth means new options. Sorting through these options requires a deeper understanding of your own values around life and money. Sudden wealth provides a perfect time to revisit your own priorities, to take stock of your values and consciously decide how to approach the new windfall. Never underestimate the power of having clear wealth management goals. Like a compass that always points to true north, such goals will help you evaluate opportunities and give clear context for making decisions. They will help you determine what makes you happy in the long run, and what gives you security and peace of mind. There is no perfect formula, no cookie-cutter solution. But don't bypass this chance to establish new wealth management goals. Indeed, as a recipient of sudden wealth your options are about to expand dramatically. Your goals may need to as well.

Preserve Lesson #5: Seek Professional Expertise and Advice

This is a lesson that has been touched upon in every other lesson, but it is also worth repeating as its own stand-alone injunction. In our original wealth management equation, we mentioned that good wealth management consists of three principles—Investment Consulting, Advanced Planning, and Relationship Management. A sudden windfall puts extra urgency on the third leg of this three-legged stool. Indeed, relationship management means that you are seeking to gather a team of experts around you who will be able to advise you appropriately as you meet the challenges of newfound wealth. An insurance expert, tax accountant, investing expert, and a good estate attorney—all of these may play a critical role as part of your wealth management team.

There are two ways to approach this. One is to act as the center of your own wealth management universe. This does not mean that you will make all the decisions—far from it. But it does mean that you will seek out the relevant experts and work to coordinate their overlapping relationships and areas of expertise. This can be a demanding endeavor, and it should be approached with the expectation that you will need to invest some time and effort in understanding the many issues on the table and gathering the related expertise from the relevant parties. For some people, this highly involved, hands-on approach is the only viable option. They need to vet and choose each expert themselves, and find it easier—and more comfortable—to be the one connecting all the dots.

The second approach is to find a wealth manager who can bring a team of experts to the table, someone who already has working relationships with an accomplished group of professionals in all necessary areas. A true wealth manager knows how to coordinate this team, understanding where one person's expertise ends and another person's begins. And he or she can help walk you through the various decisions that must be made as a consequence of a sudden windfall, recommending the right experts and acting as the central brain of your wealth management hub.

This approach need not be any less hands-on, but it can be less taxing. Having the advice of someone who has been through this process before and can walk you through the critical steps can take some of the burden off of your already stressed mind in the midst of a transition. Of course, there needs to be a high level of comfort and trust in your relationship with the wealth manager. But if you can find the right person to coordinate your team, it can be a tremendously stabilizing force during times of great instability, giving you more confidence in your future, as well as a greater probability of optimal outcomes.

Uncle Sam Loves Transitions

One of the first lessons you learn when encountering financial transitions is also one of the most important—*Uncle Sam loves transitions*. When money is moving around, he likes to take a sizeable chunk for himself. So if you want to hold on to your money, getting expert help to minimize taxes is critical. An experienced tax professional should be one of the first people you bring to the table. Between loopholes and liabilities, exemptions and estate planning, and new laws and old rules, today's tax code is quite complex, and deciphering it is not a job for the uninitiated. A tax expert can help you answer questions like:

- ***What are the tax implications of my current estate plan?***
- ***As I come toward the end of my life, is it better for my kids if I give them some money every year, or wait to give them a lump sum in my will?***
- ***How will my charitable giving impact my tax bill?***
- ***How does the IRS view the major settlement I recently received in my divorce?***
- ***If I just sold a business for a major lump sum, is there anything I can do to minimize that massive spike in taxable income?***

"Putting it simply, we are in an era of taxes and transitions," write Joan Crain and Jeremiah Doyle of BNY Mellon. "Investors need to pay careful, continual attention to the details of what has changed and what is apt to change. This is particularly true of those going through their own transitions, such as buying a home, developing an estate plan, selling a business, or contending with a divorce."[10] Taxes and transitions go together all too easily. Take care not to let Uncle Sam take more than he deserves.

What to Do with a Billion-Dollar Check?

Recent divorcee Sue Ann Arnall knows something about the issue of sudden wealth. As the wife of Continental Resources CEO and oil billionaire Harold Hamm, and a long-time executive in his company, she was no doubt already used to a luxurious lifestyle. But one has to wonder if even that could have prepared her for the size of her divorce settlement and the manner in which it was settled.

Tired of a long litigation process, Hamm finally presented his ex with an actual check for almost a billion dollars—$974 million and change, to be exact. Initially, Arnall held out for more and the check "laid around for a week or so," but the lure of that cash in hand must have been too strong, since she eventually went to the bank and made the deposit.

With the contentious divorce settled, Arnall now gets a crash course in joining the 1% of the 1%. Her life is going to change fast, and you can bet she'll need help with all of the issues involved in sudden wealth. First up—taxes. The IRS might have a thing or two to say about a check of that size. In the long run, she had better start thinking about her own values and wealth management goals. According to the National Endowment for Financial Education, 70% of sudden wealth recipients end up broke within a few years. 70%! No doubt there will be more than a few wealth managers happy to help Sue Ann Arnall be the exception to that statistic.

CHAPTER 6

Prosper: Reap the Benefits of a Long-Term Wealth Management Strategy

The wonderful thing about making careful *plans* prior to or in the midst of life transitions and taking steps to *preserve* your wealth is that it allows you to truly *prosper* in the long term. We all go through challenging life transitions, and we all struggle with making good decisions in the midst of changing circumstances. Predictable transitions present enough concerns, even without the unpredictable ones that we will inevitably encounter on our life's journey. Kahneman's "System 1" mind will always be ready to jump to new conclusions based on incomplete data, and potentially lead you in unproductive directions. But knowing how to "think slow" when life changes fast helps you put the odds on your side, preserving the wealth that you already have and also growing your wealth over the long term. Plan, preserve, prosper—these are three keys to thriving amidst the transitions of life. We have covered the essential aspects of the first two. Now we will examine the three aspects of what it means to truly prosper.

First: Create a Wealth Management Strategy that Is as Individual as You

Every human being is different, with a unique set of personality traits and preferences. And when it comes to money, we are certainly *not* all the same. Some people feel perfectly secure if they have $100 in their checking account, while others don't feel secure unless they have at least $10,000—or maybe

$100,000—on deposit. We once had a client who didn't feel secure unless she had various amounts of cash quietly stowed away in strategic hiding places around her house. This individuality is also reflected in people's longer-term feelings about the purpose of their wealth. Some people care deeply about providing for their children and grandchildren. Others care deeply about charity and want to encourage their children to strike out on their own. The key point is that everyone is different, and your long-term wealth management plan should be as individual as you.

There is no cookie-cutter solution when it comes to a wealth management strategy. Yes, tax principles may be similar for everyone and most people would benefit from close adherence to certain rules of good investing. But your values are your own, and no one else can tell you what purpose your wealth should serve over the course of your life.

When we talk about what it means to *prosper*, despite how it may sound, we don't just mean prospering financially. Yes, that's part of it—a very important part. But ultimately, to prosper means to live a life that is empowered and enabled by your financial success. It means having a degree of psychological security and peace of mind—whatever that may mean for you. It's about being able to provide for those you love and establish a powerful legacy for your heirs. It means having the resources to engage in life in the way that you want to, and to have a wealth management plan that allows you to express your values in the world. And it's about having the confidence that no matter what happens in life, no matter what unexpected transition may throw you a curve ball, your financial situation is in good hands.

A true wealth management plan must take into account all of these aspects of what it means to prosper. It is not just about the numbers on your account statement. Truly prospering means that you can rest easy knowing that you have done what you can to plan for the future and preserve your wealth through any expected or unexpected transitions that may lie in the near or distant future.

Second: Invest Like Spock

When you receive a large infusion of cash or wealth in some form, the tendency to want to invest it is natural and healthy. Now, as we mentioned in the previous section, there is no need to jump to any quick decisions amidst a life transition. But once things have calmed down a bit, the time will come to take that money and put it to work. Especially when interest rates are as low as they have been over the past decade, there is little to gain by leaving your money in a savings account. Not only will money in a lockbox under the mattress not make you rich, it will actually make you poorer as you eventually lose ground to inflation and your overall purchasing power diminishes.

Everyone remembers the beloved Star Trek character Commander Spock, brought to life so wonderfully by recently deceased actor Leonard Nimoy. In the original Star Trek series, Nimoy played the emotionless Vulcan who based his life on the principles of rationality and logic, refusing to succumb to the human tendencies of gut instinct, intuition, and emotion-based decision-making. There are areas of life—matters of love, for example—where the cool and logical Spock might not be the best person to emulate. But when it comes to investing, we should all embrace the Vulcan way and invest like Spock. It may not help you live long, but it will certainly help you prosper.

Investing like Spock means evidence-based investing. It means learning from the significant research that has been done on the best approaches to investing and avoiding common pitfalls.

One of the most common pitfalls for investors is described well in Kahneman's *Thinking Fast and Slow*. It was based on research done at the University of California, Berkeley, by finance professor Terry Odean. Odean studied the trading records of 10,000 brokerage accounts over a seven-year period. The results were sobering. On average, shares of stock that were sold did significantly better than those that were bought. As Kahneman writes, for most investors, "taking a shower and doing nothing would have been a better policy than implementing the ideas that came to their minds."

This research does not reflect well on individual stock-picking acumen. But why did the individual traders make such poor decisions? Further research was done to shed light on this, and the conclusion was also important. It showed that individual investors tended to hang on to their losers and sell their winners, limiting their gains and exaggerating their losses. And they tended to be most interested in stocks that were in the news. They chased hot stocks and momentum plays rather than seeking undervalued companies, industry sectors, and asset classes.

You might say that these are rookie mistakes. But even for professional investors with years and years of experience, there is little evidence that they can beat the broader market in the long term. Indeed, Odean's work matches other academic research, which shows that it is extremely rare for any one person to consistently beat the market as a whole in terms of return, even more so when you factor in the professional fees and expenses. As we pointed out in our previous book, *The Obvious Solution*, there is a substantial body of research now indicating that it is foolish to try to beat the market by picking individual stocks or having an expert to do it for you. We would dare say that even Captain Kirk, with his well-honed intuition and reliable gut instinct, would likely fail to beat efficient markets over the long term. Investing like Spock means approaching your investment portfolio with logic and rationality. It means taking advantage of the last decades of extensive academic research on the best approaches to investing and building a globally diversified, low-fee portfolio.

A globally diversified, low-fee portfolio is the key to maximizing your long-term investment outcomes. While the details of this investment strategy are beyond the scope of this short book, it is the strategy that will best allow you to build wealth over the long term and preserve your portfolio through the many transitions of life. (See our previous book, *The Obvious Solution*, for more detail on this approach.) And it will be the best strategy for protecting your wealth from danger if (and probably when), our national economy, or the world economy, goes through another major "transition" as well.

Three Simple Letters; A World of Confidence

When the time comes to choose the person who will act as the CFO of your hard-earned wealth, here are three important letters to look for—RIA. An RIA is a Registered Investment Advisor who has a fiduciary duty to act in your best interests. And if that sounds like it should be a given, you should know that the major broker-dealer brokerage firms—and virtually all of the stockbrokers who work for these firms—are held to much lower standards when it comes to your interests. They are required to make "suitable recommendations for their clients," which is a very different standard than the much more robust requirements of an RIA.

After the 2008 financial crisis, many were shocked to discover just how questionable some of the actions taken by traders at large institutions were vis-à-vis their own clients. It appeared that they

sold questionable investment vehicles even while other parts of their firm were betting against those same investments. Now, these were indeed more extreme cases of misbehavior, but even when there is nothing nefarious going on, in the complicated world of the financial services industry it's easy for well-intentioned advisors to end up representing multiple interests.

Ideally, we want our investment advisors to have only one set of interests to protect—their clients'. That's why it is worth understanding what an RIA is, and how he or she can bring confidence and security to your financial life.

Third: See Transitions as Opportunities

In some sense, the way we navigate the transitions in our lives defines who we are. These are the periods of life when our decisions have outsized consequences, when money is made and lost, when legacies are formed, and when patterns are put into place that may define us, or our family, for generations. We can't insulate ourselves from them, but as this short book has endeavored to show, we can prepare and plan now so that when the time comes, we have given ourselves every opportunity to make good decisions. We can never control the future, but we can tip the scales just slightly to make it more likely we will benefit from its unpredictable twists and turns. We can never know for sure what might be coming down the road, but we can make sure that we are well prepared for the journey.

In the first section of this book, we mentioned that the primary irony of transition management is that the very moments when we most need to make good decisions are often the times when we are least capable of doing so. In a very real sense, good financial management during transitions also means understanding and managing human emotions, tendencies, and predilections. It requires a deeper awareness and appreciation of human psychology. Out of that awareness is born humility and a new path forward. There is no need to overcome human nature or achieve any Herculean feats of self-control. We merely need to recognize and appreciate the important research that has already been done. Utilizing the latest science of decision-making, we can anticipate the human challenges that transitions present to all of us, seek the expertise we need, and put ourselves in the best position for good outcomes. That breakthrough research has given us new tools to plan ahead when we can, preserve when we need to, and truly prosper in the long run.

The Holy Grail of good transition management is to begin to see transitions as opportunities. These life-altering periods may indeed be moments of insecurity and significant change, when large amounts of money are on the move and life is intense and unpredictable. Their specific content may be painful, joyous, exhilarating, or confusing. But they are also opportunities to make the kind of positive, sensible, healthy decisions that will enrich and empower your family, financially and otherwise, for years to come.

Three Things You Can Do Today

What can you do today to implement the principles presented in this book? There are at least three simple steps that anyone can take that will make a real difference and put you on the path to better transition management.

1. Create or update your will or estate plan

Far too many people, including those who are somewhat or fairly wealthy, have no will or estate plan. And even those who do tend to have plans that are long outdated and no longer reflective of their current intentions—experts recommend you revisit your will or

estate plan at least every five years. Yes, working with lawyers may be costly, but in the long run it will be much more costly on many levels to not stay on top of this kind of necessary planning.

2. Map out expected transitions and steps you can take to plan for them

The first step in any good transition management plan is to know what's coming down the road. What transitions are in your future that you have visibility on right now? Make a list. Check it twice. And then take some time to consider all of the actions that you can take in the present to prepare for those events. Turning vague thoughts about the future into clear and conscious plans to take action in the present is a huge step in the right direction.

3. Make a list of all your current financial and financial-related experts

Is your financial ecosystem of experts well mapped? Who are the experts that you rely on for financial advice? Taxes? Insurance? Estate planning? Make a list of everyone that you rely on for expert financial advice and then ask yourself:

> ***Do I feel good about my team of experts?***
> ***Are there any gaps or holes?***
> ***Does anyone have the whole picture of my—or my family's—financial life in mind?***

Understanding exactly how all the expert pieces fit together will help you identify any gaps or issues that need to be addressed. And it will help you decide if you are the best person to oversee all the experts and connect the dots of your financial world, or if you would prefer the service of a comprehensive wealth manager who could play that role.


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APPENDIX

About the Firm and the Authors

Growing up in Chico, California, in a divorced family of average means, we (Mike and Ryan O'Donnell) didn't know what it was like to be or live wealthy, much less how to get there. But in our early teens we started playing golf, and at the golf course we were soon exposed to many individuals and families of significant wealth.

One day a gentleman came up to me (Ryan) and asked me a very odd question: "What are you doing for your 'little old man'?" Puzzled, I asked him what he was talking about. He said that if you want to be successful in life, you always have to be doing something for your "little old man." And, he said with a wise nod, that the "little old man" wasn't just me at 90, it was also me at 30, 50, and 70. He further explained that you always have to be doing something to make progress toward your—and your "little old man's"—long-term goals, financial and otherwise, to most successfully experience every stage of life.

In 2005, while we were both working for a large investment firm, we formed The O'Donnell Group. In 2009, after an amicable split from the investment firm, we formed our own independent firm, as we knew that was truly the only way to offer the unbiased advice—the custom-designed financial peace of mind—that our clients needed and deserved. At The O'Donnell Group, our goal is to help all of our clients improve and provide for their "little old man." We do this by serving as our clients' personal CFOs and addressing their five biggest concerns:

- Preserving their wealth;
- Mitigating their taxes;
- Taking care of their heirs;
- Ensuring that their assets aren't unjustly taken; and
- For those clients with charitable intentions, helping them make their gifts more impactful.

As brothers, we have stuck together our entire lives. Upon leaving Chico, we both attended and graduated from the University of California, Davis, and each earned a B.S. degree in agricultural and managerial economics. At Davis we were both scholarship golfers, and golf has continued to be a major theme and a productive, enjoyable hobby for both of us. As this book is being written, our Registered Investment Advisory firm oversees nearly $100,000,000 in client assets, and we are proud to say that our highest allegiance is always to our clients' needs, interests, and greatest welfare. That is, we always put our clients' interests first, not only because as RIAs we are legally obliged to do so, but because it is the right thing to do and, in our experience, the only way to reliably deliver world-class wealth management services to those who have entrusted us with the entirety of their financial lives.

ENDNOTES

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