By **James Grubman**, **Dennis T. Jaffe** & **Kristin Keffeler**

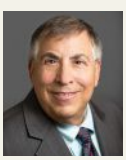
Wealth 3.0 in Practice

Harnessing the power of positive attention

In a previous article in this journal,[1] we outlined the rise of a new, more positive approach to family wealth advising we call "Wealth 3.0." Starting with the historical private banking approach oriented only to managing and preserving money (Wealth 1.0), we identified the roots of current advisory practice in the transformative period from the 1980s to the present (Wealth 2.0). The profound contributions of Wealth 2.0 broadened the understanding of wealth to include the many nonfinancial aspects of the family, emphasizing these as the true factors that determine what happens over time. A profoundly positive influence was the advocacy by Jay Hughes and other writers[2] about the intellectual, spiritual, social and human capitals of the family needing support. Wealth finally became about much more than money.

Unfortunately, a fear-based, pessimistic bias has inadvertently pervaded the professional practice of Wealth 2.0, filtering into the views of families themselves. By repeatedly conflating proverbs as facts and citing poorly validated research, the industry amplified the worries of wealth creators that their businesses and wealth would inevitably fail by the second or third generation.[3] Like scary stories retold around campfires, advisors and families shared cautionary tales about families who, despite their good fortune, suffered escalating infighting, ruination of their children's character, loss of family harmony and ultimately of the wealth itself.

We believe the next major paradigm shift in wealth advising is underway—Wealth 3.0. Wealth advisors of all disciplines have "…the opportunity to retain the beneficial elements of what we've learned, shedding any underlying pessimism and refocusing on a more positive, purposeful and professional orientation."[4] Wealth 3.0 empowers family clients to work together toward the creative possibilities their wealth and business can offer. Here are some of the practical shifts in mindset and practice that advisors can engage in to make this happen with their clients. See "A Model for Family Wealth Advising," p. 17.

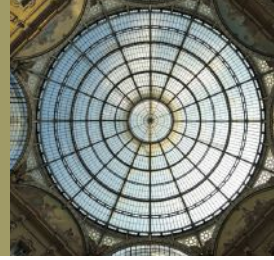


(From top to bottom) **Dr. James Grubman**, based in Boston, is an internationally recognized consultant to families of wealth, family businesses and the advisors who serve them; **Dr. Dennis T. Jaffe** is a San Francisco-based advisor to families about family business, governance, wealth and philanthropy and a senior research fellow at BanyanGlobal Business Advisors; and **Kristin Keffeler**, based in Denver, is an independent consultant working with enterprising families, as well as chief learning officer of the Johnson Financial Group

Wealth 3.0 in Practice

To implement this new paradigm, what does Wealth 3.0 look like in practice? In the everyday interaction between clients and the many advisors who serve them, several actions can become a core part of professional practice:

Replace negative Wealth 2.0 myths and biases with more positive language and up-to-date research. The first step in any new paradigm is becoming aware of one's outdated beliefs and actions from the prior system. Learn about the importance of language that refuses to perpetuate stereotypes ("trust fund babies," joking about in-laws being "outlaws") in favor of supportive language allowing



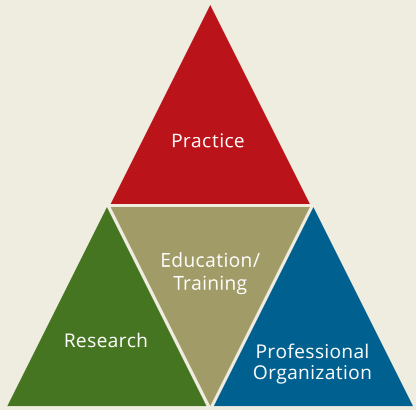
for balance and possibility. One example: Speak about "financially diverse" couples who, from different economic backgrounds, must negotiate differing approaches to partnership and parenting like any diverse couple. This is more balanced than presuming "fiscal unequal" couples will have strained relationships that will inevitably fail due to the stress of their differences.

Become familiar with the latest studies that clarify how families do well with wealth and family business. Examples include the well-designed Babson University study that showed entrepreneurial families succeeded over generations with multiple operating companies in multiple industries[5] and the Hundred Year Families project that detailed the successful practices of multi-generational families worldwide.[6]

Replace unfounded outdated statistics with more balanced education to clients. Stop using those oft-repeated yet disproven "facts" asserting that 70% of wealth transitions fail by the end of the second generation or similar dire predictions ubiquitous on websites, PowerPoint presentations and prospecting pitchbooks. If the advisory firm has seemingly committed itself to those statements, it may be hard at first to admit the statements are wrong. Explain that more recent information has come to light calling those statements into question, then lead the conversation in a positive direction with comments like, "It turns out we may not know the true extent to which wealthy families struggle or do well. Many more families may be doing better than we thought." Explain that the old research was based on very few studies decades ago on families who

A Model for Family Wealth Advising

Four connecting components



To help advisors implement the kind of rigor that supports a mature profession, Wealth 3.0 proposes an integrated model with four connected components:

- A robust Research base that's grounded in modern research design, appropriate outcome measures, well-chosen study cohorts reflecting the heterogeneity of the wealth population and increased use of longitudinal studies, published in peer-reviewed journals. (For further discussion of recommended research in family wealth advising, *see* James Grubman, "A renewed call for accurate research about family wealth longevity," *FFI Practitioner* (June 22, 2022) and James Grubman, "There is no 70% rule —improving outcome research in family wealth advising," *International Family Offices Journal* (June 2022).
- An organized Professional Organization field that elevates the current cottage industry into a coherent profession with accepted standards, at least one widely accepted unifying credential, a set of ethics guidelines with enforcement mechanisms and an atmosphere of respectful yet open discourse that fosters transparency and evidence-based practices from among competing frameworks.
- Education and Training programs that rely on the research literature and accepted professional standards to teach basic and advanced techniques for working with high-net-worth and ultra-high-net-worth clients in effective, efficient, collaborative ways.
- Ever-advancing professional Practice techniques informed by rigorous research, supported by training and overseen by professional standards and a collegial community.

Practice rests atop the foundation of Research, Education and Training and Professional Organization for the benefit of wealthy families and family businesses.

— Dr. James Grubman, Dr. Dennis T. Jaffe & Kristin Keffeler

may be very different than those of today. Help your clients let go of being labeled by the past, so they can start to chart their own course for the future.

Attend to and talk about client families who have done well. Failure stories of wealth are attention-grabbing, but it's not useful to debate about whether they *are* the norm; the unfortunate reality is that the field doesn't have reliable research one way or the other. The more important issue is whether repeating those stories helps or hurts other families' beliefs about their own fates.

Help create possibility. Gather positive examples, and without breaching confidentiality, cite families who are role models for the positive use of wealth. Fight the confirmation bias that easily recalls families or individuals who handled wealth poorly while forgetting the many clients who have done well, parented effectively and remained cohesive over time.

Learn to use discovery questions that focus on desired outcomes and possibilities. Let go of the many stock phrases and questions employed to get clients talking in ways rooted in fear. Think of how that seemingly supportive conversation-starter, "Let's talk about what keeps you up at night," sets a tone of negativity from the beginning. A better approach is, "What good things would you like to see happen over time as a result of your success?" If the client replies with the pessimistic "I just don't want my kids to become trust fund babies," empathize and redirect to the positive alternatives: "If they can be prepared to turn out well with good responsibility, what would that look like?" Help clients see the value of preparation early and often for their children and grandchildren.

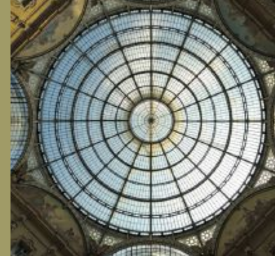
In general, ask about what your clients have already done in terms of skill development and preparation. Have a list of helpful resources or consultants available to assist those parents who may be new or hesitant about the area. Direct your questions to those times and situations in which family members demonstrated even partial skill or good decision making in service of financial responsibility. Help clients note the times when their desired outcomes seemed even briefly or partly evident. Those seeds of progress can be nurtured and may, with encouragement, become the green shoots that grow into great strengths.

Move beyond either/or dichotomies in favor of balance. Clients will often pose questions based on either/or thinking: Are we a business or a family first? Do we tell our children about our wealth or shield them from it? Is wealth a blessing or a burden? Responding to this line of inquiry perpetuates that the choices must be simple, binary and clear. Suggest that clients will probably have to balance differing priorities—for family *and* financial goals or how to share information with different parts of the family at different ages and levels of maturity. Between every two concerns lies a middle ground where a family weaves together alternatives and needs. The best responses are typically neither simple nor one-sided.

When discussing the money, emphasize the value of *preparing* the family more than *protecting* the family. Many client-requested and advisor-driven actions revolve around hiding the wealth from the children (or spouses). The assumption is that keeping wealth at bay will block its toxic influences and allow the family to grow unimpeded by riches. This often proves counter-productive later when the wealth is either revealed or experienced. Resist pressures to insulate and protect the family as understandable but ultimately unhelpful. Return to explaining the crucial importance of preparation for wealth as the pathway more likely to succeed.

Advocate for cross-generational engagement as an important element for success. As with conversations about the birds and the bees, parents may feel awkward speaking openly about money messages and skills with their children. Yet successful families consistently value communication throughout the lifespan. For the many parents who are unsure what to say or do, use books and resources to address natural questions like "are we rich?" including how to be honest and direct without necessarily having to talk about numbers. As the family ages, encourage family meetings as a fundamental vehicle for talking, learning, teaching, listening and—eventually—sharing decision making.

Realistically, some clients just won't entertain the value of talking about money or wealth, seeing it as risking calamity. For those clients, let it go. However, help them continue to teach skills and decision making even if they don't want to explain why to their kids. Communication is helpful; preparation is crucial.



Always remember that healthy integration of wealth is a long-term psychological journey. Successful development of the family and its individuals ultimately involves finding a balanced, integrated relationship with wealth in life. This process differs depending on whether the clients are the wealth-creating generation (what we have compared to being "immigrants to the land of wealth") or the rising generation (those who are native to wealth).[7] Skilled Wealth 3.0 advisors take a patient, long-term perspective. They watch for opportunities, find teachable moments to introduce new concepts and generally recognize the importance of this development for all family members and the family as a whole.

Shifting Success Measures

Preserving wealth has largely been the measure of success in Wealth 1.0 and much of Wealth 2.0. A result of the pessimistic messages about wealth has been the family's becoming insulated from learning wealth skills themselves as control was outsourced to professionals. This atrophied skill development within the family itself, leading to poor choices by family members, litigious actions that depleted family wealth and a woeful lack of understanding about both the financial and non-financial capitals of the family.

However, views about family wealth are evolving in parallel to changes in society's views of health. As lifespan has increased by almost a generation in the past century, the conversation has shifted from just living longer to living with better health. For those with the good fortune of having family wealth, the question becomes—what's the quality of life with wealth, and how will wealth be used to enrich the lives of the family and their successors?

A core tenet of Wealth 3.0 expands the measure of success for wealth from simple longevity of the money to defining purpose and developing capability within the family. The past 40 years have taught us that development of money skills first, followed by wealth skills in adulthood, prepares rising generations to handle increasing amounts of money, be productive, responsible beneficiaries of trusts and make good decisions in the many roles and responsibilities they'll have as adults living affluent lives.

Wealth 3.0 revives and refocuses the central role of *personal and skill development* as a central goal of the family with wealth. Rather than a helpless or overly controlling response to the power of wealth, advisors and families are reminded that wealth can and must be a vehicle for learning.

The following scenario illustrates this point. Assume that a family achieves financial security through successful investment, business and/or skillful financial management. The family uses their resources to learn to communicate more effectively and transparently. It institutes early financial education, teaching via allowances and good money messages that money can be handled mindfully with good decision making. The parents maintain a healthy balance of love, discipline and gratitude that fosters responsibility and initiative in their children. Through this combination of communication, skills and preparation, the family takes a progressively more detailed approach to explaining the wealth in the family and what can be expected of the rising generation in adulthood. As the family ages and others are brought into the family through marriage or partnership, the process of communication, collaboration and good decision making is expanded.

The result? Family members will be more likely to manage effectively what they own or are able to build for financial security, *whatever* their economic circumstances. Whether the wealth is preserved, used up, distributed, donated, transferred during life or put into trust, this family and its members are fundamentally transformed for the better. The money isn't the measure.

Wealth 3.0 redefines the benchmark of success from a focus on creating and preserving wealth to an emphasis on creating conditions to thrive with wealth. It's concerned with the quality of the family's development and well-being rather than the amount of wealth in their lives.

Positive Attention

Wealth 3.0 underscores the role of the professional practitioner as fundamental for success for client families. It's increasingly clear that what advisors attend to, say, ask about, omit and encourage are important determinants of what happens to wealth in families over time. Advisors who skillfully practice a positive, strengths-based approach are mindful of their words, actions, biases and power to influence those they serve. Over time, we believe the field will build out the necessary infrastructure to support practitioners through research, professional organization and education and training. In doing so, the field will have matured to fulfill its potential for families.

Endnotes

1. James Grubman, Dennis T. Jaffe and Kristin Keffeler, "Wealth 3.0: From Fear to Engagement for Families and Advisors," *Trusts & Estates* (February 2022).
2. *See* James E. Hughes, Jr., *Family Wealth: Keeping it in the Family* (Wiley 2004); Charles Collier, *Wealth in Families (Third edition),* (Harvard University 2012); Kelin Gersick, John Davis, Marion McCollom Hampton and Ivan Lansberg, *Generation to Generation: Life Cycles of the Family Business* (Harvard Business Review Press 1997).
3. James Grubman, "There is no 70% rule—improving outcome research in family wealth advising," *International Family Offices Journal* (June 2022), at pps. 33-38; Josh Baron and Rob Lachenauer, "Do Most Family Businesses Really Fail by the Third Generation?" *Harvard Business Review* (July 19, 2021).
4. *Supra* note 1, at p. 18.
5. Thomas M. Zellweger, Robert Nason and Mattias Nordqvist, "From Longevity of Firms to Transgenerational Entrepreneurship of Families: Introducing Family Entrepreneurial Orientation," *Family Business Review* (2011) at pps. 1-20.
6. Dennis T. Jaffe, *Borrowed From Your Grandchildren: The Evolution of 100-year Family Enterprises* (Wiley 2020).
7. Dennis T. Jaffe and James Grubman, "Acquirers' and inheritors' dilemma: Discovering life purpose and building personal identity in the presence of wealth," *Journal of Wealth Management* (Fall 2007), at pp. 1-26; James Grubman, *Strangers in Paradise: How Families Adapt to Wealth Across Generations* (Family Wealth Consulting 2013); Kristin Keffeler, *The Myth of the Silver Spoon: Navigating family wealth and creating an impactful life* (Wiley 2022).