A Reflection on the 0.5% of investors—Families with Trusts – and Dynamic Preservation

What the recent markets have reminded dynastic families, families flourishing in the second and later generations, is that they are dynamic wealth preservers not fortune creators; that they have fortunes to lose and risks commensurate. Further they have relearned that, because of the entropy inherent in their situations, that their problem is taking too little risk not too much.

They have further come to appreciate that nearly all investors, likely 99.5% ,are seeking to make a fortune because they do not have one to lose.

Since nearly all investment advisors have the same distribution of clients, 99.5% and .5%, they have little or no experience with investors seeking to dynamically preserve a fortune and thus are not prepared to think in the 20 and 50 years cycles needed; rather two to the three months and three years at the outside seems reasonable.

It is this reality that originally lead families, who understood the relative uniqueness of their investment issue and risk profile, to create the CIO position ,albeit they rarely hired someone for it who did not come from the investment field and thus had any experience in managing such an issue and profile.

This discontinuity of experience with dynamic wealth preservation and its risk profile lead to many investment disasters in the recent markets. The families got the problem right but the hiring wrong.

The question, therefore, cannot be in house or outside CIO but rather seeking advice from the very few advisors whose careers have been with such families and thus have the experience needed to deal with the issue of very long term dynamic wealth preservation.

I must add that almost all dynastic families, by their third generations, normally have 90% of their financial wealth in trust.

The additional complexity of the prudent investor issues that trusts pose to the already deeply complex issues of the rare investor whose problem is dynamic wealth preservation, requires an advisor who appreciates that he or she is not investing for individuals who own the wealth but for trustees who are representative owners and are not legally permitted to take the same risks as individuals regardless of how well they are protected by the trust agreement.

For dynastic families this trust reality further reduces the number of investment professionals who have the deep experience they need to achieve dynamic wealth preservation. Again the issue isn't inside CIO or outside it is relevant experience with the actual risk horizon of investing for and by trustees as the trustees seek to dynamically preserve the families financial wealth.

To make the issue complete the family itself has to assess the level of its human and intellectual capital and its ability to effectively bring those capitals to bear in a dynamic relationship of fusion with the skills and capacities of whoever is selected to manage its financial capital.

Without full appreciation of the significant differences of its situation from nearly all other investors no investment professional, no matter how competent, will be enabled to manage the families risks. Especially the families need to take more risk than its later generation risk profile will normally enable it to take.

The entropy of shirt sleeves to shirt sleeves always wins, that is mother nature's law, however, mother nature doesn't say which third generation—why not a fifteenth generation counting from the founder which simply happens to be the third generation from the thirteenth?