The Gordian Knot of Wealth

How families/UHNWI can solve it

Solve the knot, rule the world

"Turn him to any cause of policy,
The Gordian Knot of it he will unloose,
Familiar as his garter."
(Shakespeare, Henry V, Act 1 Scene 1. 45–47)

The Gordian knot story from Greek mythology -the tale says that whom ever managed to untie the knot would become king of Asia, which Alexander the Great did, by a straight and brutal sword cut -, provides a lesson about practical problem solving. For wealthy families, untying such a knot translates into matching financial objectives and creating an appropriate structure.

For most families, wealth was created from not much, by an entrepreneur. Over time, its value sometimes becomes significant. Financial affairs and commercial affairs represent two of the most important components making up the wealth of families. Whilst in most cases wealth creation initially originates from commercial assets, wealth preservation is generally granted through financial assets. Both types of assets behave differently though, and have their own characteristics. As a result, they should have different governance structures.

In the family governance concept however, family councils and/or boards must be created, covering both aspects of corporate governance and financial governance. The former is often well put into practice, whilst the latter less so. In that regard, advisers often hear the following kind of observations: “My financial affairs are unattended. I have too many bankers and I have no time to assess nor answer the many investments solicitations I receive. Nor can I evaluate the true quality of my financial performance”. This comment is too often heard from the mouths of busy and successful entrepreneurs, still heavily involved in their business.

This illustrates that successful family businesses which create large amounts of cash find themselves with the new profession of wealth manager, but with limited time and sometime interest, to dedicate to it.

Some are inebriated by their business success and feel that the same rewards should flow naturally in the financial world. This is a common mistake and some have paid a costly price before understanding that public market investing is one of the most competitive business across all industries and that their one stock *control it all* approach is different to a multi stock portfolio.

The elaboration of a successful financial governance structure assumes that the family governance architecture is established and sound. Clearly setting a family strategy which defines values and objectives associated to a *family business plan* is important. It then provides the prerequisite information for the creation of an investment policy which should translate the family objectives into financial objectives.

Family objectives depend on where the family stands in the wealth cycle, whether it is creating or preserving its wealth. One key advantage a wealthy family has is that its financial objectives can be set on several generations. That way, financial turmoil and periods of increased market volatility can then better be endured. This unique characteristic shapes choices of asset classes.

Performing such a process allows to create formal guidelines which will guide the investment committee. Furthermore, it offers the opportunity to truly understand the family’s culture and dynamics while providing time also for interaction amongst family members. More importantly, the platform should also unite the family around financial expectations and consequently should result in the most appropriate, long lasting tailored solution.

Families generally have more than one asset manager or private banker. The role of the investment committee varies from an institutional approach to a private banking approach. The former rests on a delegation principal which consequently requires a strong investment committee, whilst the latter offers more flexibility and customization, with a more controlling responsibility.

With an investment policy created and agreed upon, the implementation can begin, from the RFP (request for proposals) to beauty contests, right through to the elaboration of reporting tools. Once the investments have started, the monitoring of the various managers in terms of risk and investment guidelines, supervision and market reviews become the investment committees’ core activity. A fine-tuned financial governance set up should manage it efficiently.

As the wealth cycle evolves, the importance of and the dependence to the financial wealth increases. Creating an adequate platform at the beginning is paramount to the success of both: meeting the financial objectives and insuring a smooth transition to the next generations. It prepares them for their future and increasing responsibilities in the world of financial asset management. Additionally, it provides for a truly, long term fiduciary relation to develop with external advisors.

In the current financial turmoil many families would love to have their Alexander The Great in their entourage, helping them explore and conquer prosperous opportunities. Financial assets can be very complicated but sometimes made to look more complex than they really are.

A golden rule is to keep it as simple as possible, which in some cases may require a straight and brutal sword cut. Although debatable as to when and if it should be recognized as a Gordian knot or not, many have addressed the issue with diverse success. But one thing is certain: for some families, a proper financial governance may be the Alexander they are seeking, sometimes desperately, sometimes without being able to name it and sometimes even unknowingly.

In our experience as a leader of or advisor to a family office, what are the most valuable services or qualities we can provide to that family ?

Being proactive to address issues and provide multigenerational education and planning. Having the family work together and communicate effectively is key to a well managed family office. In today's ever changing estate planning strategies and tax law changes, the key is to have a functional relationship with every member of the family, not just the patriarch or matriarch. If you're doing whats right for the family you will be considered a valued adviser and an asset to the family's estate planning team.