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The Fifth Annual Integrated Wealth Management Forum just took place in New York City and many people commented that it was the best yet. It certainly had an unprecedented roster of speakers, and the organizers will have a really difficult task topping the event next year. It is thus probably a good idea to reflect on the major themes that emerged from these very full two days. To this writer, there were three important sets of implications.

The first theme relates to simple vocabulary issues. Jay Hughes and several other speakers reminded the audience that there is much confusion around the real meaning of the word "wealth." Too often, wealth managers whose roots are in the asset management world are tempted to define wealth in purely financial terms. Though financial assets are assuredly a part of the picture, limiting the definition of wealth to them causes one to miss a very big element of the problem faced by the wealthy. Managing their assets must indeed for them be viewed in the context of the broader challenge of growing a great family. Wealth must therefore be viewed to refer to human capital supported by financial assets as facilitators. In particular, I remember a case where the patriarch of a multibillion-dollar family once surprised me as he responded to the following question: "In five years' time, you want to tell me that we have failed; to what will you point?" Tearing up, this otherwise super-tough individual simply said: "I have spoiled and ruined my grandchildren." As so many elders of wealthy—and not-so-wealthy—families, he understood the importance of many of the so-called "soft" issues without which there is only a minor chance of raising a great family and seeing it through the ubiquitous "shirtsleeves to shirtsleeves in three generations."

The crucial nature of this issue is best illustrated in the challenge that it poses to the financial academic community. It not only encompasses the psychological and behavioral concerns so well expounded at the Forum by Nobel Economics Prize winner Daniel Kahneman, but, in fact, it goes even further. What if a wealthy family initially preferred a totally so-called "sub-optimal" solution simply because it needed time to focus on the more important human capital issues? In that case, one might indeed conceive of a time horizon that would comprise two totally distinct phases. The first would relate to the short term, during which the principal area of focus would be on issues such as determining what the family wants to do with itself following a major liquidity event, educating and preparing younger generations to the challenges associated with a different financial environment than that experienced by their parents, or even more simply assessing their priorities between personal, dynastic and philanthropic goals. During that first phase, the principal investment goal would involve strict nominal capital preservation, and probably require highly liquid, simple

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and low volatility strategies. The second phase, which starts when the first is completed, would incorporate the next several decades and require a more sophisticated investment plan.

A simple implication of this need to define wealth in a more holistic manner is that firms that intend to serve the wealthy might well want to revisit their names if they still include the terms "asset management," unless they have chosen to play only a product provider role. Note that such a strategy is not necessarily a bad one. Indeed, as Jon Benevides or Charlotte Beyer did suggest, there is certainly space for more than one successful business model in the industry. Certain players will indeed opt to retain a sharp product focus, aiming in fact to be the provider of choice, selected by others, in their field of expertise. As expounded in the famous book "From Good to Great," these people choose product excellence as their driving value, product excellence here being defined as extending to operational excellence as well. Yet, they do need to understand that they leave the role of the principal adviser, of the group who is closest to the client and who has the greatest control over their own destiny to the firms who opt for "customer intimacy" as their primary value.

The second theme relates to the need for clients and service providers to understand their own limitations. Listening to the many presentations by individuals coming from a variety of disciplines, ranging from philanthropy to estate planning to family business management and even to asset management, it was difficult not to be overwhelmed by a single thought: the world has become incredibly complex. Choices which used to be if not binary at least reasonably simple have not only become quite complex, but in fact almost take on algorithmic dimensions. This reflects the many at times contradictory influences that one must take into consideration. As an example of the truly ridiculous, but unfortunately real, one speaker discussed a proposed new regulation that would define what a risky asset truly must be to qualify for capital gains treatment in certain derivative circumstances. That rule would require that there be a 20% chance of a 20% loss. Though, on the surface, this may seem reasonable, it is instructive to note that, on an annual basis, an asset which has an expected return of 8% and a standard deviation of 15% (this might be a good proxy for U.S. large capitalization equities) only has a 17% probability of a loss of 7% or more! Now, clearly, one can play games with this, using shorter term time intervals and annualizing them afterwards, but this is a good illustration of the need for the wealthy or those who serve them to understand the breadth of the problem with which they have to deal, recognizing that quite a few participants do not have a good grasp beyond their narrow area of specialty.

Then, though one's initial reaction might be despair, there is an optimistic outlook on the problem. Despair would indeed be in order if one had a view that the entirety of the solution must be controlled and generated within a single organization, be it the client's family office or a single service provider firm. The optimistic among us will however note that rare is the individual who is really in total control. More often indeed, a perfectly viable solution is for the wise to surround themselves with specialists, while making sure that there is someone very close to them who understands and can help manage all the interactions. In many ways, this involves understanding that our fundamental role, as an industry, is to help our clients and that this help can take many shapes. Jay Hughes pointed to the fallacy of trying to start a relationship by asking "what do you need?" Rather, he suggested that one should ask: "how can I help?" Once one has understood the subtlety of the concept, it becomes quickly obvious that help can involve providing a product that meets a particular need, just as it can relate to providing a service that involves placing several products or services within the appropriate framework that will allow them to work together rather than against one another.

In short, the idea here is for families and service providers to conduct an honest evaluation and inventory of their capabilities, and then to supplement, or "complete" in investment jargon, their own capabilities with external specialists. Thinking along these lines, as we were reminded by Maria Chrin and Jackie Hoffman-Zehner, will allow one to ensure that one knows what to look for as a client, and, for service providers, to ensure that capabilities are not overstated. I am reminded here of a well-known investment management firm which, years ago, used to define its market as "those who buy our services!" Quite a narrow definition indeed!

Closely related to this is the final theme, which revolves around the need for every one of us, client or service provider, to look at problems and solutions in a holistic manner as well. There is indeed very little that can be more important than looking for all the relevant interactions and dealing with them. Bob Gordon spent some time discussing the issue of certain structured notes which, he persuasively argued, would be best created synthetically by the client rather than purchased from a broker as a total package. This illustrates the first element of the requirement to be holistic in the process. Yet, one should arguably take the idea at least one step further.

Imagine that you feel that the Japanese equity market

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will most likely rise over the next two years, but that you do not feel like adding to an existing straightforward long only Japanese equity exposure, for a variety of reasons which may include a fear that global equity volatility might still bring Japanese equity prices down. Imagine further that an option available to you is to purchase a structured note that provides a principal guarantee and a chance to participate in some of the upside of Japanese equity prices over the next two years. Bob Gordon would argue that buying a two year treasury note is safer than taking on the credit of the investment bank intermediary, while buying a call option backed by the Options Clearing House might also offer a greater safety, the combination of the two being thus arguably a superior alternative to the structured note. Now, consider the next iteration on this trade. Why even bother with the Treasury note if the portfolio already contains some significant and low risk fixed income exposure? Why not simply purchase the option on the Japanese equity market, with or without a currency component? This might lead to the idea of portfolios that comprise some major part that is managed with reference to some broad investment policy, with a smaller satellite whose function would be to take on bets or hedges, depending upon the family's or the manager's current insights. Besides being potentially more tax-efficient, that approach may also help families manage their investment costs down.

Further, and in keeping with the first theme, it is important to remember that these interactions are in no way limited to issues arising within the investment sphere. They literally populate the whole wealth management challenge. Consider, for instance, the problems associated with funding philanthropic ventures. How often will a traditional asset manager think of the potential associated with highly appreciated securities? Yet, though giving back certain securities (in a carefully planned process geared not to raise the portfolio's risk unduly) may reduce the assets under one's management and thus one's fees, this could be the best way to help a family minimize the cost of some donations. There is not enough space here to list all these possible interactions, but the message should nevertheless be crystal clear: rare is the set of circumstances where a wealth management decision can be made in a vacuum.

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As has been our practice for some time, the Winter 2007 issue of *The Journal of Wealth Management* is concerned with both soft and hard issues.

The first two articles revolve around the softer dimension of wealth management. Sara Hamilton and Joline Godfrey take up the crucial theme of sustaining the family and its wealth beyond the lifetime of the founder. Gerhard Van de Venter and David Michayluk focus on the issue of the subjectivity in judgments made by advisers when dealing with asset allocation problems and its implications.

The next two articles deal with two aspects of the hedge fund industry. Harry Kat first investigates synthetic hedge funds as a means of achieving comparable after-fee returns with selected additional advantages. Jean Brunel focuses on the question of whether the return of hedge fund managers simply revolves around leveraging some market or factor exposure and concludes that there is still a very meaningful alpha component that would seem quite hard to replicate.

The next two articles deal with one of the world's fastest growing economies and the eventual market for wealth management services: India. First, Guntur Anjana Raju looks into the compliance with Clause 43 of the listing agreement by initial public offer companies in the Indian context. Then K.B. Subhash and Deepti Bhat focus on the Indian insurance market and suggest that only a major focus on the rural sector of the economy will allow for the major growth forecasted by many.

Our final two articles deal with specific investment issues and are somewhat technical, in that they both call upon sophisticated quantitative analyses. Yet, we feel they should be of interest to our readership as they relate to investment market segments often discussed within the high net worth community. First, Robi Elnekave introduces a new perspective on modeling savings that borrows extensively from the field of hydrology, hoping to palliate the inherent weaknesses of traditional financial or retirement planning. Second, François-Éric Racicot and Raymond Théoret consider the dynamic market strategies of hedge funds by using the Kalman filter, correcting for the weakness of a traditional regression, and conclude that the alphas of hedge fund indices appear quite difficult to control, while their betas are much more controllable, their reaction to market variables being significant.

Jean L.P. Brunel
Editor