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ON THE COVER

"Consecutive Working"
Stoneware 2008. w51" x d51" x h35.5"
Photographer Anna Sigge

Eva Hild *(b. 1966) is a Swedish sculptor working in large-scale ceramics, metal and concrete. With her organic sculptures, she has rapidly established a position on the international art scene and is represented in important private and institutional collections worldwide. Her art has met with a profound fascination at the way in which she expresses body and space, strength and fragility, presence and absence.*

Eva Hild is represented by Nancy Margolis Gallery in New York City. Visit www.evahild.com to view more works by the artist.

In our last letter, we covered both the theoretical and practical financial challenges created by the crisis that started in late 2007. In this letter, it is only fitting that we should discuss an opportunity that the crisis has also created for families—the enshrining of the education that it offered in wealth management standards.

It is a truism that a crucial element of any relationship between a family and those who provide services to the family is trust. It is also a pretty obvious observation that some of that trust has been eroded, if not lost, as a result of a few questionable marketing practices employed by certain members of the wealth management industry, broadly defined. Yet, it would probably be too simplistic to simply look at one side of the relationship and assign it all of the blame. Families also must accept some of the blame for having given in to greed and for not having always seen themselves, practically as well as theoretically, as the stewards of their own wealth.

Recently, I had a chance to have breakfast with two of the main drivers behind the new Institute for Wealth Management Standards, a nonprofit organization dedicated to the proposition that families can join together, worldwide, to create a set of principles-based standards that apply to the management of both family offices and family wealth management programs, which were originally drafted by the Lowenhaupt Global Advisors Global Council. A very important starting point in this initiative is the observation that three crucial elements seem to have underpinned all successful families, across geographical and cultural boundaries, and through time. The first relates to the need to have well-articulated and strongly shared values within the family. The second is the need to have well-defined and policed decision-making processes. The third requires a physical embodiment of these values and processes in at least one family leader or even several.

These three elements taken together, which Don Trone defines as ethos, ensure that all the dimensions of the family's capital—financial, human, intellectual, and social—are "optimized" to guarantee some form of "eternity" for the family legacy, eternity in this context meaning to extend across multiple generations. This is what Jay Hughes has often described as the goal of avoiding the proverbial "shirtsleeves to shirtsleeves in three generations."

Though it is tempting to assume that all the required elements can somehow, casually and almost accidentally, fall into place, it is a dangerous illusion. The proverbial quip "the more I practice, the luckier I get" comes to mind here. Surely, one or more of the critical elements that create ethos come naturally to certain family members, but a determined and conscious effort is required for all of the elements to come together to ensure that they are woven into the indestructible fabric of the family.

Of equal importance, and of particular relevance for countries and cultures familiar with rules-based laws, wealth management standards should not be rules based, but should be principles based. Don Trone has a useful mental process to illustrate the difference between the two—assume a two-dimensional space described by discernment and behavior. Rules compose the part of the space that involves minimal individual discernment and behavioral initiatives; rules-based standards are all about mindlessly applying a given set of rules with no space for personal responsibility or even common sense. Phillip Howard, a well-known critic of the US legal and regulatory systems, has often referred to a rules-based standard as "the death of common sense," which we have observed with all of its sad and unintended consequences. A principles-based standard, however, requires a high degree of personal discernment and initiative; it provides a general direction in terms of guidance, but leaves to each family the choice of whether or how it wishes to comply, or strive over time to comply, with the principle.

These principles are directed both inward and outward. Looking inward, they strive to describe the best or, at least commonly accepted, better practices that help a family understand how it should, and does, deal with its wealth. Thus, clear statements of purpose, preferences, governance, and general biases are important because they help family members understand and form rational expectations as to how "things" should unfold over time. In short, the principles articulate the ways in which the values of the family and the family's interactions with external realities affect the way the family conducts the business of managing its wealth. Although the 15 principles as currently articulated by the Institute for Wealth Management do not expressly extend to issues of family education and related softer issues, the comments that will be forthcoming as the standards are tested in individual family focus groups and subjected to broad discussion will hopefully lead to additions on that front.

Looking outward, the principles undergirding the proposed wealth management standards should describe the requirements to be placed on service providers in order to ensure that a strong measure of trust will exist between the parties and that all fiduciary responsibilities are appropriately discharged. This area is probably where the challenge associated with the careful selection of appropriate principles is the greatest. Indeed, the private wealth management industry, in a global sense, is not yet solidly established. It is still a work-in-process and theoretical frameworks are being built on a somewhat as-we-go basis. Thus, the standards must be sufficiently broad so that changes in industry knowledge and in the processes the industry uses can be accommodated. It would really be sad, and somewhat counterproductive, if these standards were to inhibit innovation, as an overly narrow definition of the principles might discourage those who feel things should be done differently.

One concern with the current state of the wealth management standards project is that it might be viewed as missing two important elements. The first element of concern is that the list should ideally expand to cover a few additional family decision-making and activity processes. Families need to grow into the realization that their efforts extend substantially beyond mere financial or governance decisions. Thus, families need to think a bit more about several issues, such as the education of current and future generations, and which overarching principle should inspire that effort. Also, how should a family go about discerning the extent to which non-investment-related issues should be allowed to influence investment decisions? What role do these concerns play? How should they be expected to affect investment results, and does this matter? These are all important questions that could be addressed through education, but may have a different place as well. What about mission-based investing? How much is enough or too much when it comes to generational transfers? How should this issue be considered and addressed? How about the communication between generations as these decisions are made? What about philanthropy? Even if it is an important family value, how is the natural conflict between stewarding a prior generation's dream and living one's own dream balanced? What kind of risk management process should be put in place to deal with the boringly normal as well as the esoteric? Should there be a process in place to raise the issue of, for example, who should share rides in the family's plane? The list obviously can expand, virtually ad infinitum, but the point is hopefully made—family wealth management has multiple dimensions and families would be well served to pool their experiences to develop a set of principles and best practices so that everyone avoids reinventing the wheel.

Correspondingly, each of these individual issues may lead to the need to engage a number of advisors working in a wide variety of fields. Yet, as has unfortunately been amply documented in the recent past, investment managers do not have a monopoly on wickedness, greed, or simply a lack of professionalism and/or sense of fiduciary duty. Thus, as fam-

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ilies come to rely more on advisors across a wide array of areas of expertise, it will be necessary for the proposed standards, which in an external sense currently focus almost solely on the asset management industry, to expand into new horizons; this is the second element that seems to be missing in the current proposal. A few of the current principles will likely remain applicable because they apply, for instance, to the transparency of fees or the need to disclose and manage all possible conflicts of interests. Yet, it is conceivable that either the principles will have to be written more broadly or the list of standards will need to be expanded when the relevancy of a principle to a specific industry specialty is just too stretched to avoid the formulation of industry-specific principles.

In short, the creation of the Institute for Wealth Management Standards should be applauded by all who seek to enhance the professionalism with which families address the management of their wealth and families' service providers work to meet their needs. Because the first proposed list of standards corresponds neatly with a few well-written investment policies illustrates how the standards' authors have already managed to cover quite a bit of territory, all the while remaining as commonsensical as possible. That the list of standards needs to be expanded and refined should surprise no one as the "world was not made in a day" as the saying goes. Yet, the most important element of this endeavor, besides the fact that it is being addressed in a nonprofit format that should eliminate potential conflicts of interest, is that it is now reaching the phase when all members of the global wealth management family will have an opportunity to comment and make suggestions. It can be persuasively argued that it is not only an opportunity but a fiduciary obligation for all those who work in, and are passionate about, the wealth management industry to cooperate with and to help further develop this laudable initiative.

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The Spring 2010 issue of *The Journal of Wealth Management* maintains a great deal of diversity in topics and the geographical distribution of authors—this is a wonderful development that unfolded in 2009 and for which we are truly grateful. In this issue it is really not practical to create artificial groupings of individual articles as the field they cover is so diverse.

The first article by Charles Lowenhaupt introduces the Institute for Wealth Management Standards and discusses the genesis and potential application of principles-based standards in the wealth management process. The next article by Robert Elliott deals with a very timely topic, when the regulatory burden and other costs may lead a single-family office to consider shifting to a multifamily office arrangement. Kirby Rosplock, in our third article, presents the conclusion of an analysis on the role played by gender in the approach to, and application of, wealth management processes.

In the next article, Scott Welch focuses on the extent to which 2008 marked a crucial time for the wealth management industry and the need that it created to revisit a number of cherished preconceptions! Tom McCullough, Scott Hayman, Jonathan Garbutt, and David Lesperance then address the option of Canadian citizenship for wealthy global families who are becoming increasingly aware of their need for a well thought-out citizenship and residency strategy to protect their wealth and to safeguard their freedom of movement.

John Okunev addresses a continuously vexing problem, which though relevant to certain members of very wealthy families, is more important for the merely affluent: What should one's asset allocation be when one retires? The thought process has interesting parallels that can be applied to wealth management. Ser-Keng Ang then offers an interesting qualitative perspective on the challenges faced by the private banking industry in Asia, a region that is becoming increasingly important within the industry as private wealth accumulates at a very rapid pace. Also within the region, Guntur Anjana Raju and Kanak Sapra examine the issue of the pledging of promoters shareholding in India and the transformation of the concept from "convenience" to "curse" in the Indian capital market. This issue's final article by John Simpson speaks to a microeconomic issue that should help readers make greater sense of developments in the global oil market.

Jean L.P. Brunel
Editor.