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On the Cover

Untitled, 1984
Cut Steel Oil Drum
12 × 9 inches; 30.5 × 22.9 cm

Cecilie Markova *(Czech, 1911–1998) was a visual artist most categorized within the "art brut" community, otherwise known as "outsider art," for her raw and non-institutionalized technique. Her impulse to draw as a way to meditate and recover from loss quickly transitioned into a passionately creative and spiritual life practice. These self-taught artist's works are represented on an international level, and have recently been making an appearance in the secondary market at major Prague auction houses. Works by Cecilie Markova can be found at Cavin-Morris Gallery in New York, NY.*
Visit www.cavinmorris.com to view more works by this artist.

Education has always been a very important dimension of the family wealth management process. It covers all the dimensions of what Lisa Gray calls "authentic capital," such as social, financial, emotional, artistic, and many others. Recently, discussing this issue with a family, an interesting insight came up: the almost dizzying amount of information available through the internet and various other sources is making this educational process both more important and more complex. The family patriarch suggested that the nature and usefulness of information may well have changed dramatically; he wanted to convey the message that individuals in his family's next two generations ought to be aware of the need for them to understand the change and to adapt to it. The point is not only valid, but in fact fascinating, as many families today may not appreciate the three main dimensions of this change.

The first dimension relates to the fact that the massive amount of raw data that is readily available makes it increasingly tempting to bypass the fundamental analysis of the data and go directly to a review of other people's analyses and opinions. Though this may seem somewhat paradoxical to the analysts among our readers, it is really little more than the simple observation that human nature tends to seek the easy way out. True analysts rejoice at the ready availability of data: what used to take hours of patient and painstaking work in a library can today be done in a few minutes with a few clicks of a mouse. Virtually every statistic that one might desire is available and downloadable! If the address of a database does not come up immediately, one can search for papers on the same topic, and chances are excellent that the author will quote the appropriate source, which can then be accessed directly. A few Excel manipulations later, the data are arranged in the appropriate format and graphed elegantly. Unfortunately, not everyone is an analyst. So, for those who cringe at the idea of processing vast amounts of data, the temptation is very strong to dispense with the analysis and simply read the conclusions drawn by others.

This temptation interacts with the second dimension: marketing has made massive progress. What started as messaging to sell soap and toothpaste in the 1960s, developed under the original lead of Philip Kotler of the Kellogg School of Management at Northwestern University; it now permeates every walk and aspect of life.

The Journal *of*
Wealth Management

Marketing influences everything, from the selling of a candidate for political office to basic educational issues. Fifteen years ago, I was told that the average sound bite had gone from 30 to six seconds in the prior twenty years! It may even be shorter than that today. We need everything to be short and sweet, failing that, we simply stop listening. We get bored and our attention shifts to some other topic. Now, imagine yourself having to defend something that is very dear to you before an audience which will hypothetically be neutral to unfavorable; imagine further that you only have six seconds to make your point! How impractical will that challenge be? It is therefore not surprising that combining the temptation to use processed, rather than raw data and to take superficial opinions as the final truth very quickly leads to the development of insights and perceptions which might easily be missing something important. More of a cynic than I might even argue that our perceptions and insights have little chance of being correct unless some external referee is available to provide guardrails. This is where family education needs to come in and make sure that the next generations are schooled in the art of probing so that they do not simply accept the line that is offered to them.

The final dimension makes this even more important, as it relates to the fact that intellectual honesty has often given way to ideology and short-term self-interest. To be sure, ideology and self-interest have been a part of the landscape for a long time. Yet, it does appear that the increasing focus on the short term—we will always have tomorrow to deal with the issues of the day after tomorrow—and the subordination of unbiased analysis to ideological prejudices are making it increasingly difficult for untrained individuals to get a real understanding of what is happening. Except for peer reviewed journals such as *The Journal of Wealth Management*, a lot of unsubstantiated opinions are allowed to be proffered and spread with, at times, questionable assumptions or processes to boot. It has been a while since the phrase "perception is reality" was coined, but it has become the guiding force of many in the advisory world.

This creates a new situation for wealthy families in that they need to make sure that future generations are prepared to deal with the issues that will eventually be theirs. They can no longer assume that fiduciary principles are so strongly held within their service providers that they will always hear the truth—or at least something honestly believed to be the truth. Wealth is a great luxury in that it is a great enabler; it allows a family and the individuals comprising it to dispense with many of the worries which other, less wealthy people need to manage, often as a matter of first priority. After all, goals-based wealth management has taught us that maintaining one's lifestyle often is the absolute priority. In the world of the non-affluent, this means shelter and food are two of the most crucial dimensions of the management of the family budget. For many a wealthy family, though these two goals remain very important, they are usually quite simple to achieve; they can afford to look for more esoteric goals, which, in the U.S., often rightly mentioned as one of the most generous and philanthropic societies in the world, quickly expands in the reaches of charitable giving or planning for future generations. Yet, wealth also has a couple of major disadvantages: the wealthy often wear a target on their backs; they are viewed as prey by many who have no greater desire, as the classical comedy states, to separate individuals from their money.

This requires that an additional focus be placed on the new environment in which wealthy future generations will evolve. They need to be taught the importance of intellectual honesty and rigor. They need to be able to drive through the mass of legalistic disclosure statements to identify the real purpose animating potential service providers. They need to be able to learn the value of actual facts, even if they can at times appear to be overwhelmingly numerous and complex, when not simply internally contradictory. They need to understand that there are certain areas where they can benefit from advisers' opinions and that there are others where they have to be prepared to do the hard and detailed work. Rigor in this context means that questions have to be precise; that bias and prejudices must be spelled out; that all reasonable avenues must be evaluated; and that all potential advisers need to be tested as to their total and unconflicted commitment to the family.

I sincerely hope that this brief summary will serve two different purposes. First, I hope that families will revisit their current situations and the way they impact the necessary education to future generations; they will need now more

The Journal *of*
Wealth Management

than ever to assure themselves that they are not exposed to the risk of missing key facts or of hearing opinions as being objectively developed when they are often designed to elicit a specific buying response. Second, I hope that it will motivate research and suggestions from those of our readers who specialize in family education issues. Our point is not to criticize the past as much as it is to suggest that the future may actually be sufficiently different from the past as to require different solutions. I am reminded of an admonition that I received from my late father many years ago and which has kept me on my toes ever since: "Deal with the world the way it is and not the way you would like it to be." Accepting that guarding against intellectual laziness and a lack of total concern for fiduciary duties definitely, in this observer's humble opinion, represents new conditions that should be integrated in the family wealth management educational process.

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I am delighted to be able to report that the Summer 2014 issue of *The Journal of Wealth Management* covers a broader spectrum of wealth management issues than what has been possible in the last several quarters.

Our first article stands on its own discussing the institutionalization of family offices in Brazil. Caroline de Oliveira Orth, Clea Beatriz Macagnan and João Zani identify the organizational characteristics of family offices in Brazil and differentiate between single-and multiple-family family offices.

The next three articles share a common theme: they focus on issues that extend beyond the pure investment spectrum and intersect with estate or financial planning, family businesses or specific asset locations. The first, by Stephen Horan and Robert Johnson focuses on human capital, which represents a large proportion of the assets on almost all investors' life balance sheets and varies considerably in magnitude and character, and concludes that investors with substantial discretionary wealth experience changes in asset valuations and investment priorities with material implications for optimal asset allocation. The second, by Bruce Paulson, Jim Brennan and Tim Tallach suggests that, with today's exceptionally low interest rate environment, families of wealth ought to consider seizing the opportunity to refinance their balance sheets. The authors discuss the benefits and risks of utilizing one of today's most popular estate planning "freeze" techniques to potentially enhance overall family wealth for future generations. The last of this trio of articles is by John Yeoman, which shows that using a Charitable Remainder Trust to fund a retirement portfolio with a highly appreciated asset can make economic sense, even when a couple (or single person) has no charitable motivation.

The next four articles deal with various aspects of the investment process. First, Steven Dolvin revisits the efficacy of trading using moving averages and tests a variety of strategies, concluding that a comparison of the market price to the 50-day exponential moving average generally provides the highest risk-adjusted performance, with the exception of high volatility periods, where a comparison of 50-day versus 200-day exponential moving averages performs better. This article will be particularly interesting for readers who have some exposure to managed futures, or CTAs, which have tended to have a difficult time in markets in the last several years. The next article by James Chong and G. Michael Phillips, who received the 2013 William F. Sharpe Indexing Achievement Awards, ETF/Indexing Paper of the Year, for "Low- (Economic) Volatility Investing," which was published in the Winter 2012 issue of *The Journal of Wealth Management*. Their current paper extends their research by looking at tactical asset allocation using an economic-based factor pricing model and concluding that the economic response filtering with the maximum Sharpe ratio optimization provided the best overall performance in terms of returns, while the low- (economic) volatility portfolio had the lowest volatility. We then turn to an article by Daniele Lamponi, which checks the validity of industry classifications by comparing them to a data-driven categorization of large US stocks. He finds that a data-driven categorization, which relies exclusively on stock price time-series, shows a consistent overlap with the industry classification, supporting the choice made by market participants. The final article in this section is by Greg Gregoriou and Maher Kooli, both members of our Advisory Board, who inves-

The Journal *of*
Wealth Management

tigate the ranking of the 25 largest hedge funds during the 1999–2013 period and find that the majority of our sample of large hedge funds do a poor job of outperforming the S&P 500 Index for the five years after the financial crisis and a good job of outperforming their respective indexes and that, during their sample period, winners remain winners.

Our final two articles are book reviews in line with the commitment we recently made in response to requests by readers that each issue comprise at least one such exercise. The first is by Greg Gregoriou who reviews *Family Wealth Management: Seven Imperatives for Successful Investing in the New World Order* by Mark Haynes Daniell and Tom McCullough and published by Wiley. The second article is by Jean Brunel, who reviews a book authored by Steven Lockshin, entitled *Get Wise to your Advisor: How to Reach Your Investment Goals Without Getting Ripped Off,* also published by Wiley.

Jean L.P. Brunel
Editor