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The Third Annual Integrated Wealth Management Forum was recently held in New York City, presented by Institutional Investor Events, Private Asset Management, and this journal. That it was attended by a record number of families, family office members, and wealth management service providers is encouraging news enough. Yet, what is most exciting is that many attendees said that this was the best so far. We thank all those who made presentations, those who asked pertinent and penetrating questions, and those who attended. We also want to thank the sponsors, without whom such a conference could not take place, and the many members of the Institutional Investor Events team, who, though often behind the scenes, were the crucial engineers of the logistics and therefore those who deserve all the credit for the success of the conference!

When I think back to those fruitful two days, three main conclusions seem to come to mind.

1. Do Not Ignore the "Soft Stuff." If there is a single message that permeated the conference, it must be the notion that integrated wealth management cannot work without a determined and deliberate focus on many soft issues. A number of speakers referred to it, and it affects a number of dimensions of the process, as well as many decisions that families must make.

As a start, consider the issue of investment policy, or the "flight plan" that families must put together to organize the management of their wealth. It is often tempting, particularly for those who come to wealth management via the institutional asset management route, to look for the effort to be chiefly quantitative. Yet, families usually have more than one goal, and each of these goals is often associated with its own set of risk parameters, biases, and preferences. Presenters who focused on behavioral finance insights clearly made that point and supported the importance of moving to some form of goal-based asset allocation.

Beyond this, though, is the notion that individual goals are not set in stone but in fact often evolve over time and go beyond financial matters. This was possibly best put by a presenter who suggested that individuals also may have changing goals. The insight here is that "new" wealth does not immediately come with a full appreciation of the way in which it may change someone's life. Thus, only the passage of time will allow the newly wealthy individual to assess what goals are most important now and how they

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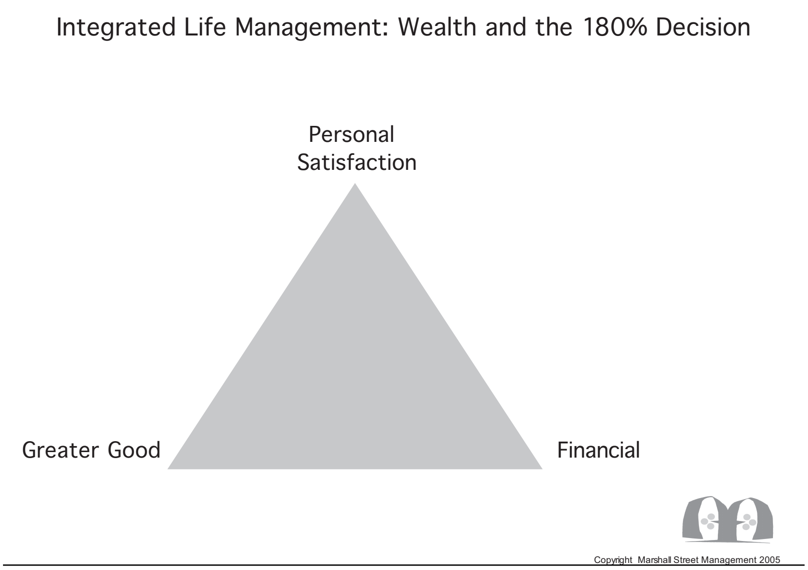

will evolve over time. In fact, this presenter, Jesse Fink, offered the triangle shown above—which was developed by Mark Cirilli in his family office—as a framework for the family's wealth management decisions from the beginning. The idea is that financial goals are only one part of the full picture and thus that the management of the family's wealth must also contribute to the fulfillment of the family and the achievement of some form of greater good that transcends the family.

Soft issues often also drive the important decision of whether a family forms a single family office or gets together with others to create a multifamily office. Clearly, the presenters who spoke on this topic also pointed to important economic issues to help in the decision, but, in the end, a crucial question is whether the family office is expected to play a role in the stewardship and transfer of family values. When the office does play that role, it is more difficult for a multifamily structure to work.

2. More Work Is Needed with Respect to Alternative Assets. Several presenters addressed various aspects of the alternative asset world, with a principal focus on so-called hedge funds. It seems that a consensus is developing that one should eschew the term "hedge fund," as it really does not promote any sharper an understanding of the issues. Someone correctly argued that the only clear differentiating element in a hedge fund is the fee structure (although this is also changing as certain strategies are offered in mutual fund or derivative structure guises, both of which involve different fee arrangements). Alternative assets really involve nothing more than investment strategies where market risk (though at times still important) is secondary to manager risk, incurred to generate alpha. This has significant implications for portfolio optimization as well as portfolio construction, a topic on which very interesting work was presented, suggesting that the standard approach to portfolio construction based on asset classes may well be relegated to the dustbin of history.

Mark Anson in fact offered an interesting framework derived from the institutional world, where investors are invited to differentiate between their "beta drivers" and the portfolio's "alpha drivers." Suggesting as he does that these two dimensions ought to be split, he supports the propositions that have been made by quite a few authors in the past several years and published in this journal that individual taxable portfolios are best divided into two subpools, one designed to generate tax-efficient beta while the other focuses on alpha, often with less tax-efficiency.

Several speakers reinforced the critical message that the focus on manager risk in the alternative asset sphere makes it imperative that due diligence processes be robust and deliberate. Although one presenter offered a simple list of four questions that would have allowed one to avoid all blow-ups since the hedge fund world started to experience success,* the issue, by that presenter's own admission, is considerably more complex and requires both quantitative skills and qualitative capabilities, developed through experience. In particular, this should serve to remind all of us that greed often plays a role in the way in which we make decisions and that we should be very careful not to invest based on historical records alone. Not only can those be somewhat divorced from reality (they might be fake, or at least apply

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to smaller assets under management or a different strategy), but they may also reflect luck more than insight. Understanding the investment process and its repeatability, ensuring that the manager has the appropriate resources to apply that process, and monitoring that the process remains successfully applied going forward are considerably more important than a simple review of past performance, beside the obvious issues of operational integrity and character.

The final insight in this generic category relates to the need to recognize that tax considerations are still somewhat of a moving feast. Thus, besides ensuring that one fully understands the actual tax-efficiency of these strategies and their ongoing tax risk, considering alternative approaches to generating these streams of returns is important. These approaches range from simple derivative contracts to more esoteric dynamic trading-based replicating techniques, an example of which was presented by Harry Kat.

3. Integrated Wealth Management Is All About Managing Numerous Interactions. Though there is admittedly little new here, it remains one of the least understood areas and comprises numerous individual dimensions, from family governance to philanthropy, from family dynamics to asset location, and many others. One of the presenters offered the notion that a good wealth manager must know about 40% of the available insights across a number of disciplines, and this is the real key to understanding how one can be successful in the field. It is indeed at times terribly tempting to aim to become the best at one specific discipline, and there is nothing wrong in such a goal. Yet, that goal will typically prevent one from becoming a successful wealth manager as one needs to be able to see the whole forest and how it relates to its environment rather than being able to identify each tree.

This calls upon a great number of disciplines and upon numerous interactions among them. The interactions between taxes, behavioral finance, and investments are relatively well studied and known, and substantial progress has already been made there. Yet, two separate panels focused on other, newer interactions, looking at the criteria for selecting from the vast array of wealth management services provided and the generational challenges faced by families in achieving effective wealth transfers and preservation. In both instances, the range of issues that needed to be taken into consideration considerably exceeds the narrow spectrum of taxes, behavioral finance, and investments. In fact, the last speaker of the forum focused on one such additional dimension: philanthropy. She discussed venture philanthropy as a means of leveraging oneself, and thus effectively started many of us thinking of the fundamental differences between and interactions across passive and active philanthropy. While the former simply revolves around funding programs, the latter involves spending one's own energies and using one's own skills to help a team get projects through.

I firmly believe that we are making progress on the road to integrated wealth management, although we certainly need to guard against it becoming another buzzword. Given the fact that families are clearly telling us that this is what they want and need, it might in fact be tempting to use that spin applied to old-fashioned private banking practices to try to score competitive points. Though this might provide some interim success, it would really be a shame as the opportunity is great for those who accept the need to change and march toward creating fully integrated wealth management practices, combining whatever in-house resource they have with whatever outside skills must be brought to bear.

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This Winter 2005 issue of *The Journal of Wealth Management* offers a great deal of diversity, with articles ranging from somewhat sophisticated quantitative insights to the discussion of the soft issues that we are more than ever committed to investigating and covering. We start with two articles that discuss broad industry issues. Jay Zagorsky first shares insights on the way in which the wealthy handle the management of their financial wealth. Miles Padgett and Louisa Wright Sellers then turn to the question of how a service provider might be successful serving this segment, identifying key skills and practices.

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Our next five articles are dedicated to issues surrounding asset allocation. Jeffrey Hoernemann, Dean Junkans, and Carmen Zarate first go back to the age-old question of the importance of strategic asset allocation, concluding that it should be complemented by tactical asset allocation and security selection, in this echoing the conclusion offered by Brian Jacobsen at the forum that strategic asset allocation should not be the same as static asset allocation. Jean Brunel and Lisa Gray return to the goal-based asset allocation process and suggest that family dynamics and governance should be integrated into that approach to allow advisers to maximize their chances of being successful in complex family situations. Then, Darryl Meyers proposes the second part of his work on investment considerations under the Prudent Investor Act, finding that in terms of wealth effects to all parties, portfolio choice dominates distribution policy choice over the period examined, although distribution policy can mitigate year-to-year variations in wealth flows. Binbin Guo and Max Darnell turn to the issue of time diversification and conclude that the change in relative riskiness of stock over bill and bond returns as a result of different time diversification effects strongly supports the conventional recommendation on asset allocation policy with different investment horizons. Finally, Anne Shumadine looks at asset allocation from an ongoing portfolio management point of view and offers scenario planning as a useful tool for thinking about the future, despite its limitations, as it enforces a long-term view and changes the focus of discussion.

Our final two articles take us back to the world of alternative assets in general and so-called hedge funds in particular. First, Hilary Till and Jodie Gunzberg offer a survey of recent articles on hedge funds, which should provide our readers with a better picture of the important current issues. Finally, Janie Bouge and Hossein Kazemi take a second look at the use of privately placed life insurance policies as wrappers designed to enhance the tax-efficiency of hedge funds and conclude that these can still be used to gain tax-preferred exposure to hedge funds.

Jean L.P. Brunel
Editor

ENDNOTE

*Does you manager have an independent auditor? Is that auditor a known entity? Is there an independent valuation entity? Is that entity knowledgeable about the strategies and instruments utilized?