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Recently, a family I have the privilege of serving asked a very interesting question: how should we define and deal with the issue of legacy? What makes the question particularly interesting, at least to this humble observer, is that it should not solely concern those who have great wealth. Indeed, a legacy is much more universal than that; it should apply to all families—and arguably did until our post-modern civilization started placing so much emphasis on "me, myself and I" as the only three persons that matter!

Thus, let us start by defining what one means by "legacy." If legacy is something all families have—and is thus not solely a question of money, wealth or philanthropy—it must be centered on special values, memories and traditions. Very importantly, legacy is inherited or learned by each generation and then re-interpreted by that generation into the legacy that it will pass on to the next one. In many ways, this statement is the conceptual equivalent of the construct recently proposed by Jay Hughes, according to which we should all seek to balance living the dreams of our ancestors and bringing our own dreams to life. An analog of such a process exists in the study of the Bible, or of most sacred scriptures. The scholar must be able to discern the difference between "eternal truths" and "temporal literary influences." The former must be discerned, preserved, learned and put into practice; the latter, though often enjoyable—as art can be—is at best neutral to this process of discernment and can even be an encumbrance.

Further, one might paradoxically observe that part of a legacy may be a negative, which eventually may be transmuted into a positive. Recently I tested this idea with friends who 30 years ago had a very challenging experience: one of the two sets of parents stayed away from their wedding ceremony. The couple's initial reaction to my question on legacy was to argue that they did not have one, as they were forced to start afresh, adopting none of the values then displayed by their parents. Yet upon further inquiry, they opened to the idea that their initial response was faulty. Indeed, having learned from their parents' behavior, they created different sets of principles for their new family but—and this is the key point—colored them with older values which their parents revealed when all eventually was reconciled.

Thus, families lacking great financial wealth deal with the values, traditions, memories and physical assets—valuable or not—that house these memories or bring them to life. For instance old, but not necessarily wealthy, European families routinely transfer art, jewelry, furniture or real estate to their heirs. Those heirs likely also inherit a sense of obligation to protect these assets and to pass them in turn, together with additional ones, to their own descendants. Here, physical assets are not necessarily deemed important or even valuable, but they provide outward shape to a memory, a person, a passion (for collecting, refurbishing, designing …) or family tradition. This is illustrated by the effort

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of many families to preserve an old home whose comfort may at best be lacking or whose maintenance might be costly, just because that home is associated with a strong memory. (This can become overwhelming when the property, for instance, contains an old family cemetery!) The same would be true of art, artifacts or other collectibles which may be of considerably less financial value than what that family might now afford but which, by contrast, have particularly high emotional value. Legacy in this sense does involve an important emotional dimension.

In at least two dimensions, wealthy or very wealthy families have more work with respect to legacy and its management through time than do families of lesser financial means. The first is to train the next generation in the art of dealing with wealth, of understanding the legacy (their ancestors' collective dreams), and their role in both preserving and adding to it (their own dreams). The second dimension is to establish and administer structures consistent with this legacy to minimize erosion over time or facilitate the efficient achievement of certain missions.

Wealth can be a great enabler, if well-understood and utilized, but it can also destroy if not judiciously used. The oft-quoted phrase "from shirtsleeves to shirtsleeves in three generations" is echoed in many languages and societies. Wealth can be a great positive influence, in that it might allow someone to live a dream without worries about the financial consequences of doing so—such as high maintenance costs or considerably lower revenues than what the heir might earn if engaged in some other avocation. On the other hand, wealth has the power to destroy those who use it as a replacement for discipline, common sense or effort. These individuals develop a sense of entitlement that fails to recognize the responsibility to nurture that wealth and pass it on, providing descendants with comparable opportunities. In many ways, there is thus an interaction between legacy and wealth: one must take care not to allow the purely financial aspects of legacy to obscure its elementary nature. In fact, arguably, wealth makes focusing on the qualitative aspects of a legacy much more difficult and risky. I would argue that it creates four additional risks:

- First, the risk of putting the cart before the horse. This occurs when wealth planning is conducted before understanding the nature of one's legacy and the manner in which it might be effectively passed along to one's heirs.
- Second, the risk of trying to control from the grave. This occurs when one practically enshrines one's values, goals, intentions or wishes into inflexible instruments, effectively sentencing one's heirs to living out the ancestor's dream.
- Third, the risk of being overly "practical." This occurs when the current generation views wealth management as a problem that needs to be solved rather than as a means to achieve some greater goal.
- Finally, the risk of missing the point entirely. This can occur when the current generation espouses certain values and lives according to others. The next generation is confused at best!

Thus, a successful family will ensure that its legacy is almost more of a process than a proclamation. It will seek a flexible dynamic and encourage each subsequent generation to continue building that legacy, much in the way an entrepreneur might expand upon a business initially inherited. As Jay Hughes would point out, simply defining legacy as doing the will of a particular individual jeopardizes its chances for survival. The immediately succeeding generation may have enough love or solid enough image or memory of their parents to keep the spirit alive, but the odds of survival beyond that generation may not be particularly attractive: backward focus leads to entropy.

Further, and importantly, wealth management requires the creation of structures to deal with the financial aspects of legacy. Again, the risk exists that one may focus on the structures rather than the intentions, effectively confusing the letter of the law for its spirit. Consequently, the wealthy must give particular consideration to their decisions' implications in a highly sophisticated and far-reaching manner. Clearly, at a minimum, they must formally identify their goals before embarking on the creation of structure: the process must be goal- rather than tax-management-driven. More than that, they must mimic the behavior of a chess player: envisaging what may happen further down the road and ensuring that the structures they contemplate incorporate flexibility to achieve what they wish and welcome the inclusion of goals that may be added by subsequent generations who contribute to the inherited family legacy.

Formulating one's legacy and initiating a transfer might involve the following three distinct ideas.

- First, concentrate on values rather than specific goals. Indeed, if values are sufficiently general, chances are greater that they will be more readily adopted.
- Second, make it clear that "human" as opposed to "material" success is challenging to achieve without one or several passions. Explain to one's heirs how to identify, nurture and strive to achieve one's passion.
- Finally, the third task for the current generation is to provide an example. Explain how the interaction of the family's values with personal beliefs, interests and preferences has led to supporting the causes chosen. An ancillary benefit may be to lead the next generation to share this dream.

The imperative of passion is pregnant with practicalities. I can think of two principal points.

- Wealth, this arena, may be a significant differentiator. Indeed, Jay Hughes has eloquently discussed two spellings of "work," one with a "w" and the other with a "W." The former deals with revenues on which to live, while the latter refers to working on one's passion. While children of wealthy families may immediately focus on the passionate definition of work, those from less affluence must often give priority to life's practicalities over its passions. Idealistically, one would hope they could do both at the same time, but this is not necessarily an easy task.
- The second practicality is accepting the notion that passions evolve and cycle over time. Initially it may seem unreasonable to pretend being passionate about something only to abandon that pursuit at a later time. Yet I believe this is feasible and important and may in fact reflect personal growth. Thus, one returns to the imperative that passion is understood in a generic rather than a specific sense. Specificity can serve as an example or an illustration, but narrowness is less likely to generate enthusiasm and excite strong following than a passion focused on a generic "something" applied to a specific problem or set of circumstances.

The initially iconoclastic notion that passion can change leads to the idea that there are a number of interactions one could also envisage, wondering whether they add to or subtract from the problem. For instance, is there an interaction between financial wealth and the seriousness of one's legacy? Must legacy transfer in a straight line or may it include collateral branches of one's family? How far back must one reach to source the legacy? Is there interaction between legacy and fame, assuming no direct relationship between fame and financial wealth? What are the important similarities and differences between "roots" and "legacy"?

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This Spring 2007 issue of *The Journal of Wealth Management* covers a particularly wide range of topics. It begins with two articles, coincidentally, one looking forward and the other looking back. Sara Hamilton, the Founder of the Family Office Exchange and a member of our Advisory Board, offers penetrating insights on the future of the family wealth marketplace. Dr. Subhash presents a global perspective on the historical geography of venture capital financing.

The subsequent four articles focus on important aspects of the asset allocation or diversification puzzle. Harry Kat, also a member of our Advisory Board, offers a list of ten simple questions to help evaluate a proposed diversifying asset or strategy. Robert Dubil introduces the complex issue of economic derivatives as a means of shifting certain risks inherent in the portfolio. Next we have an interesting debate on the often discussed topic of value versus growth investing. Bala Arshanapalli and William Nelson investigate the performance of portfolios sorted by size and book-to-market ratios during periods when the stock market declined and when the economy is in recession. Jayen Patel and Bruce Swensen provide evidence that the value premium is inversely related to the performance of the overall stock market.

Our final three articles cover three quite diverse topics. David Krein examines the concept of principal protected notes and concludes that investors might benefit significantly from acquiring and managing the two underlying components independently. Mebane Faber presents a simple quantitative method that improves risk-adjusted returns across various asset classes. Last but not least, James Pesando and Pauline Shum explore art investing. They use an early study of the investment potential of one segment of the art market, the market for modern prints, as a cautionary tale.

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