

New implications for financial decision-making in families

By G. SCOTT BUDGE, PhD. and GREGORY T. ROGERS

Is the party over? By now there is an evolving awareness that the economic environment we live in is extremely complex and problematic. Even with a shift in administrations on a platform of "hope," it is becoming clear among affluent families that things are not as they were – and equally important, that there is no clear end in sight.

For better or worse, the family is often the flashpoint for financial stress. The American Psychological Association's landmark study on stress – completed early on in this cycle – flagged money and work as the top stressors.¹ It's hard to imagine what those numbers would be now.

In the micro-politics of the family, then, discussions like the following are beginning to be more common:

Her: "What do you mean we're not going to keep our capital commitment to the Women and Girls Development project!?"

Him: "You wanted our kids to go to private school, didn't you – we've got to make \$150,000 a year pre-tax to keep them there. I went to public school and turned out ok."

Her: "Why not our club membership? Why wouldn't that go first? You'd put all of my time and energy having an impact on this community before your social play time with your golfing buddies?"

Him: "Why not stop the renovations to the back of the house then? Oh, somehow that's off limits? I didn't even want to bring that one up."

Her: "Speaking of bringing it up, how about we unload the sports car you just had to have?"

...And on it goes.

In times of abundance and climbing markets, conversations like the one above were easily avoided. What seemed like only the occasional friction or petty bickering in the good times now threatens to become a familial conflagration even in the most affluent families. Hidden values discrepancies between spouses and generations previously buried by substantial financial wealth now emerge and sharpen conflicts that, if unmanaged, can degrade family relations.

Everyone has heard about the importance of determining family priorities and examining the means and challenges associated with their transmission to the next generation. Similar to what we all learned about our true "financial risk tolerance" during 2008, this economic skid is bringing out the "real deal" in family decision-making. Boom times anesthetized us from the pain of choosing this over that. They made budgeting a matter of trying not to spend more than was coming in. In addition, overly optimistic assumptions were made relative to income sources and asset values. In the good times, the entire assumptive base included...

- > We will continue to grow income year after year
- > My bonus is "stable income"
- > Income from the family business will continue into perpetuity

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- > If I lose my job, I can replace today's income within a short period of time
- > We have solid assets that we can use to borrow against
- > We have concentrated assets that will be stable forever
- > We can always refinance when we need to
- > Trusts that we have been provided to us will last generations

The sense of abundance also lubricated the give and take of "you take the spa trip and I'll do the annual boondoggle to St. Andrews." You were able to live a life of enjoyment, where indeed the most important questions about values likely emerged in discussions of the impact of financial abundance on the growth and well-being of the kids. Today, lip service once paid to worrying about the effect of wealth on children, can now be actualized by actually "walking the talk". In this regard, a period of great opportunity has arrived for families; we suggest taking full advantage of this unique gift.

Terra In-firma in the Land of Wealth

In the midst of the current economic downturn, however, even the most affluent families have been thrown a curveball. They find themselves in unfamiliar terrain: confronting the complexity of having to make choices in the midst of relative scarcity. Jaffe and Grubman's articleⁱⁱ on "natives and immigrants" to the land of wealth now needs the sequel. Namely, what happens when there is a real or perceived slide to the margins or out of the land of wealth altogether? In our own industry, we have seen fortunes and jobs wiped out, with more likely on the way. Yet beyond that, the emotional implications of not keeping up with the Jones do not typically bring out our best selves. Even if you can continue to afford accustomed expenditures, what does it really mean to:

- > Reduce charitable contributions...*when that carried with it several psychological and social accoutrements.*
- > Pare back on household help...*when having extensive resources for cleaning, child care and home management managed the hectic pace of your life, as well as allowed you to pursue your own personal activities...*

- > Give up that annual exotic trip...*when so many friends have told you how transformative theirs was...and what will it look like to others if we don't travel as we have in the past.*
- > End that new home improvement project – *even when you really can afford it and will probably never get the contractor's price and attention like this again.*
- > Rent out the second home...*when privacy in such a home seems de rigueur in the land of wealth.*
- > Consider taking kids out of private school...*especially if that has been a nexus of social connection for the parents.*
- > Sell grandpa's real estate business...*when such holdings have provided cashflow and a long-term minded anchor for the extended family.*

This list can go on and on, with the net result presenting a potentially toxic blend of isolation, fear and even humiliation. The real and perceived slip in social class level in our society is a ranking taboo. It's just not supposed to happen, even if only in the trappings. For better or worse, difficult discussions are going to occur in the family around the kitchen table and in the bedroom.

The Challenge of Decision-Making in Times of Constraint

At nearly every level of American society, we can expect big challenges attending the loss of the economic jet stream that we've had at our back for many decades. The recent shocks on Wall Street and Main Street are probably symptomatic of future turbulent headwinds – a phenomenon unfamiliar to most Americans. Successful families will have to get past the squabbling about lifestyle losses in order to determine how they are going to function and thrive.

While we do not know how this particular crisis will ultimately play out, we have argued for the need for strong family leadership in order to manage the coming challenges of lukewarm U.S. market projections, globalization, longevity and other forces operating on the family system.ⁱⁱⁱ These premises have not changed. At the same time, a declining economy bolsters our argument for the importance of family leadership, which is absolutely critical if families are to address the following issues effectively:

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- > The need to cut back will test family values and priorities around the central issue of what is truly important in life – at the level of the individual, the couple and the family as a whole – with respect to social status, lifestyle, recreation, health, charitable giving, education and work/family balance.
- > The perception of scarcity will force the couple and family to prioritize explicitly or run the risk of rekindling old resentments, tensions and other emotional sub-texts.
- > Heretofore benign secrets, easily masked in better times, may emerge with more antagonistic symbolism attached now. It's no longer as easy to look the other way with respect to hidden spending, hoarding, intra family lending, and "bad" investments.
- > Cycles of mistrust can turn vicious as new intra-familial transparency reveals inconsistencies and perceptions of dishonesty.
- > Loss of face can occur as old assumptions and previous choices seem poor and ill-informed through Monday morning wisdom.
- > Escalation of emotions such as fear and hurt can easily inflame defensive styles of anger, personal attack, blaming, denial, and withdrawal. Economic stressors often act as accelerants of these styles, making previously normal conflict superheated and considerably more threatening.

These are complicated matters for families to sort through, even among those where there is not a substantial risk of losing food, health, and shelter as well as the fundamentals of a good lifestyle. Voluminous research in social science and behavioral economics tells us that times such as these

are when a deep testing of human values and communications occur – perhaps on a level like no other in recent history. Resisting the inclination to panic and capitulate will be paramount. Just as there are compelling financial opportunities embedded in the current environment, so too are there opportunities to take the high ground with respect to family leadership. For many families, even the Great Depression rendered not only memories of privation and sorrow, but memories of courage and resourcefulness, as well as grand acts of kindness and character. This moment presents families with no less an opportunity.

**Many families will
also emerge STRONGER and
more VITAL than ever
before.**

May you live in interesting times. That ancient Chinese proverb – reputed to be a curse – seems appropriate for the

moment we are living in now. These *are* interesting times and will stress test families at every level of the economic spectrum. Many will experience some form of hardship, loss or deprivation. But make no mistake: Many families will also emerge stronger and more vital than ever before. A combination of good financial information and a no-nonsense approach to the emotional subtexts that are part of financial decision-making, will help to steady families who are tacking into those turbulent headwinds. There is no one right path to take. Still, the high ground will be claimed by those who seize this moment as an opportunity to re-examine values and engage in thoughtful, calm and deliberate decision-making in order to support long range positive outcomes. >>

¹ *Stress in America, American Psychological Association Annual Survey, September, 2008.*

² Dennis T. Jaffe and James A. Grubman. (2007). *Acquirers' and Inheritors' Dilemma: Discovering Life Purpose and Building Personal Identity in the Presence of Wealth*, Journal of Wealth Management, 10, 20-44.

³ Cf. Gregory T. Rogers with Kelly Costigan. (2007). *Seven Realities for Affluent Family Leadership*. www.raylign.com

Financial decision-making in families—

Let's get strategic

by G. SCOTT BUDGE, PhD. and GREGORY T. ROGERS

THE LEADERSHIP TRAJECTORY

How, then, can families not only mitigate harm to family relationships in times of shifting financial realities, but even use current challenges to strengthen ties? We think the special ingredient lies more in how you approach the issues, than the nature of the issues themselves. It therefore takes leadership that can integrate both the financial and emotional dimensions. Moreover, it's time to get strategic and to begin by imagining a prolonged change that allows you to live consistently within a new framework.

- > **SET THE CONDITIONS** to work together constructively. Try to envision what kind of environment is most conducive to having potentially difficult but productive conversations. *(see more on how to "Set the conditions" on the back side of this insert.)*
- > **DO AN INVENTORY, TAKE STOCK.** Review your full financial reality, including assets, liabilities, and realistic income and expense trajectories. Not all families are good at this by themselves, nor do they necessarily have financial modeling tools at their fingertips. Clinical practice suggests that at certain moments financial modeling can help mitigate fantastical mathematics that couples often do in their heads in the heat of battle. Start with the worst case and work backwards to test assumptions.

- > **STEP BACK AND ASSESS THE EMOTIONAL IMPACT.** Do not attempt to rid this exercise of emotions as you will end up kidding yourselves and will likely revert to the old patterns that now need to be jettisoned. Understand what you are feeling, where these feelings come from historically, what you're each worried about and how you may be alike and different in your "mental accounting" for what is going on. Empathy with the other is a fabulous antidote to defensive posturing. Try to live in the other's shoes. Don't dismiss out of hand what it might feel like for your spouse or partner to have to say 'no' to that trip with friends or to that purchase that seems silly to you. Empathy is the gift that keeps on giving.
- > **LOOK FOR AREAS OF AGREEMENT.** Start by identifying elements on which you agree, including low hanging fruit such as eating out, certain household expenses, home improvements and large purchases that can be addressed without undo aggravation. Make note of what these agreements seem to tell you about your values and what you care about.
- > **UNDERSTAND AREAS OF DISAGREEMENT.** Rather than plunge into solving areas of disagreement, try to understand what the basis of the disagreement represents. Where do the disagreements come from? How have they played out before? What is at stake symbolically as well as materially? Make choices in favor of empathy and understanding over anger, ridicule and condescension. Try to get the full picture of problem areas before you tackle one in particular. This may require outside help.

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- > **IDENTIFY A RESOLUTION METHOD.** Don't feel you need to figure out everything in one meeting. Come to a consensus on methodology: how should we approach the list, especially those areas where the emotional valences could intensify? Starting at the top assumes the list was randomly generated and each of the items has comparable weight. Instead, decide first, for example, that you want to work on those areas that affect the children. This might mean summarizing what you anticipate the reaction of the younger generations will be to your decisions and consider who you want involved in the solution.
- > **COMMUNICATING OUTWARD.** We assume that while the key decision makers represent the center of gravity for doing this work, they exist in a system of stakeholders. Take some time thinking about how to radiate your ideas to the people that need to know, whether it is children, family branches or advisors. It is hard to over-communicate in these times, but that does not mean that you should run roughshod over boundaries of privacy or overload your family with information they can't use. Think about your audiences, what you really want to convey and what a good outcome looks like.
- > **NEW MODUS OPERANDI.** Once you've begun making progress, make sure that you inoculate yourselves against falling back into old patterns. Focus on new approaches to handling your family's financial matters. Would more meetings be helpful? Different kinds of meetings? Or, for some, scheduling regular family meetings for the first time may be just the thing. Keep in mind that we are talking about a new climate, not just a spike in bad weather. Build into your new approach a way to prevent an escalation of emotions, which does not mean eliminating them but rather making emotions work for instead of against you. Emotional expressions should be seen for what they are—as signals of something that needs to be handled with care. >>

Set the conditions

- Scan times of day and locations that will support rather than undermine your ability to talk.
- Identify the goals you want to accomplish, even if those include finding ways to de-escalate arguments, get on a more sound economic and emotional ground, or making a decision to include your financial advisor or another facilitator.
- Do the task you've set out until you can't. If you can't, ask yourselves what is getting in the way (not why aren't things working) and then gather the facts about what is breaking down, not assign causes or blame. "What" questions are less judgmental (i.e., "what do you think is preventing us from resolving the vacation decision?") and give you and your partner access to resistances and what lies beneath them—usually fear, hurt, and sometimes humiliation are the underlying drivers. Keep in mind that anger is a cheap emotion—easy to access, plentiful supply. As the poet Allen Ginsberg reminded us, "anger begets anger." Where there is anger, look instead for hurt, fear or sadness as the most likely underlying driver. >>

*A companion piece to RayLign's 2009 eLign: **New implications for financial decision-making in families.** eLigns are published periodically to help families and their advisors safely negotiate the big bends in the road, the ones that really matter.*

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ABOUT THE AUTHORS

G. Scott Budge, Ph.D., *Managing Director, RayLign Advisory, LLC*

Scott is an expert in the dynamics of wealthy families, having worked directly with hundreds of entrepreneurs, corporate executives and their families. He has also worked extensively as a developer and educator of wealth advisors, which is the focus of his new book, "The New Financial Advisor: Strategies for Successful Family Wealth Management" (John Wiley & Sons). Prior roles: Scott founded two companies focused on delivering internet-based management services to single- and multi-family offices, and financial advisors throughout the US and Canada; Senior Vice President, SEI Investments where he co-developed their family wealth management; Scott has published several articles, including works on the psychology of investments, family wealth and family businesses and spoken at numerous domestic and international industry conferences; Board Member, "Family Business Review"; Founder & Member, creative team at Shaking the Tree Foundation, a professional theater group whose productions focus on challenges faced by families of wealth. Scott is a Fellow at the Family Firm Institute; Founding Member, Money and Family Life Project at the Ackerman Institute for the Family. Education: PhD in Psychology from New York University.

Gregory T. Rogers, *Founder & President, RayLign Advisory LLC*

Greg founded RayLign Advisory LLC to "perpetuate well-being for families" based on the integration of leadership, family and financial principles he developed over fifteen years as a member of his own family's investment consulting business, builder of a strategic consulting practice and leader of a public, family-driven, asset management enterprise. Prior roles: EVP & COO, John A. Levin & Co.; Managing Director, BARRA Strategic Consulting Group; Director, RogersCasey & Associates. Affiliations: General Partner, Rogers Investment Partners; Director, Rogers Family Foundation; President, RayLign Foundation; Member, TIGER21; Member, Family Firm Institute; Board Chair, Ackerman Institute for the Family, and "Money, Values and Family" Project; Advisors Council Member, Fairfield County Community Foundation; Adjunct Professor UCONN "Skills for Financial Independence". Education: MBA International Finance, NYU Stern School; Brown University, BA Economics and Organizational Behavior & Management.

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RayLign Advisory LLC

35 Mason Street, 4th floor
Greenwich, Connecticut 06830 USA
(203) 742-5450 tel
www.raylign.com