

On Wealth: What is the relationship between family and wealth – and how can they possibly stay together?

Dr Ariel Sergio Goekmen

Often our clients ask us and seek guidance on how they can keep the wealth in their family over generations and prevent dissipation over time. Our firm was established by the Anglo-German Schroder family in 1804, maybe this is the reason they come to us.

Usually we begin with what I would describe as the star of doom. The star of doom comprises in its rays all the threats to the family wealth. At its core, the loss of the family fortune looms. The rays carry names.

These rays of the star of doom can be categorised into reasons closely tied to the family itself, ranging from bad investment or business advice to bad implementation, bad business decisions, divorce – Mr Bezos comes to mind – family conflict, which sometimes even blocks a family business from thriving, no mutually shared family values, no discipline, family fertility with many offspring, which have to divide the inheritance, expensive lifestyles, expensive hobbies, drug addiction and drug abuse to mental insanity.

“I cheat my sons wherever I can.”

– William A Rockefeller, father of John D Rockefeller

Then there are rays of the star of doom which relate to reasons sometimes outside of the influence by the family. This can be government action including sanctions and confiscations (eg, the Soviet or Nazi regimes), inflation, taxation, revolutions (eg, 1789 or 1917), wars and of course, more benign by comparison, fraud.

“My firm shall go to male family members only. No daughters or in law.”

– Mayer Amschel Rothschild, stated in his will in 1812

In order to stay wealthy as a family over generations, the family has either to have the foresight to avoid all the threats the star of doom poses or indeed be very fortunate to navigate the seas of change successfully.

After we have considered the threats, usually we look at the network a wealthy family has around them. This network includes structures to hold family wealth like trusts, foundations, family firms,

participation in businesses, real estate, pleasure assets like yachts, investments in art, horses, cars, liquid and securitised wealth – which all need to be supervised and coordinated. It is here that we say that families do not go bankrupt because they are no longer wealthy. They go bankrupt because they became illiquid and unable to pay their commitments.

“Saving is nice, especially if your parents did it for you.”

– Winston Churchill

Considering the network around the family further, we come into areas of tax domicile, taxation, centre of life, succession and estate planning, who advises the family in which field, whether the family has established a family office and what the role of this office is. Sometimes families use their family office mainly for record keeping, often for asset management and less often for governance.

Further in the family network are the influencers, these are people like other wealthy families, whose advice and view the present family would heed. Then there is the family culture, their values and traditions. Sometimes they already have a family vision, mission and strategy. All of these points are relevant and define whether a family can remain wealthy over generations.

“One should have two fortunes: one to keep, one to spend.”

– Winston Churchill

In the final phase of analysing how to keep the family wealth together, we focus on the family values. The family values in our observation are the most critical to retain the wealth over generations.

There are, for example, very wealthy Zurich-based families who tell their children: “It doesn’t matter, what you do in life. You don’t have to go to university. You can be a carpenter. The main thing,

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you are the best in your field". Others say: "Our family is very privileged for generations. Each child has to create value in society. One becomes a medical doctor, another a scientist, one goes to clergy, one goes to serve in the armed forces."

Lastly, there are those who repeat the mantra of an ancestor: "Never take debt, finance everything yourself", or "One third in real estate, one third in business, one third in gold", or "Never sell a plot of land we own". I tell my own kids: "Goekmens are producers, not consumers".

We all know families who preach austerity and other upright values to their kids. We also all know families who spend money as if it has gone out of fashion, indulge in a consumptive lifestyle, who are morally corrupt and are without governance or vision. If as a parent you do not live the values you preach, they peel out without echoing in future generations. And with that happening, one of the rays of the star of doom is the fate of the family fortune. This is the strongest message this article can convey.

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