**Family Office Discussion Document**

*Note to the reader: the below letter was originally composed to individual clients about their particular situation. I've edited it to make it fit for general consumption, by way of introducing the Family Office opportunity, and mandate, to the public.*

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Dear Client,

Thanks for joining me for lunch the other day. I hope you'll agree with me that it was both fun and productive.

It left me pondering Family Offices because of a remark you made to me, while we were chatting with your receptionist before lunch. You said something about how we've been handling home and business separately but the fact is, they overlap and are interdependent, and that you want to better organize all of it to free you up for both larger philanthropy and fun.

That interdependence is the reality that underlies the formation of family offices.

You also mentioned during lunch how you're both "quirky" in that you have a way of spotting opportunities others overlook, of making lemons into lemonade. Through their direct investment activities, that is what family offices do; and the reason they prefer Direct Investments over, say, indexed mutual funds, is because they've learned about their own quirks and how to leverage them. In a way, that's what makes their family unique.

On waking the following day, I realized it was time to pull a little book down off my shelf that I had bought last July: Richard Wilson's How to Start a Family Office. I've also bought Dr. Kerry Rosplock's book, The Complete Family Office Handbook. It's on its way now, and very soon I'll be sure to share salient points from it with you, probably in the form of a written Executive Summary.

Wilson's is a 90 page booklet, which I read on the 23rd and 24th. It's a marketing piece for his outfit, and a decent first attempt at putting together some coherent and useful information about Family Offices, which have been historically secretive to avoid banditry or worse ("The submerged whale is not harpooned"). Wilson reports that now, 95% of them still are. Only 5% have things like branding and web sites, to encourage joint venturing with other family offices and to improve their deal flow.

Wilson used to be based in Portland, Oregon and is now in Key Biscayne, Florida, while retaining his Oregon location, as well as a third in Brazil. I hope you'll get yourself a copy of his little book; and if you don't, I am planning on buying a supply of them and giving one to you.

As I mentioned over lunch, normally Family Offices are established by and for the "ultra wealthy" ( > $500M Assets Under Management or "AUM"). But it's a sketchy space. There are families with AUM > $1B who do NOT have family offices and need them, and there are ultra wealthy families who DO have family offices that are, in one way or another, under-developed or half-baked.

And as I also mentioned, the ordinary pattern in family office development is to REACT to a misfortune, to work on developing the family office in the same way that one might work on building a fence after the herd has been depleted.

I'm thinking maybe we could do better.

If you haven't seen it yet, here is a web page I developed three years ago about Family Offices. As I explain there, I first learned about them while researching the Biz Buy/Sell space ten years ago because I learned that, along with income properties of all sizes, Family Office Groups or FOGs are common buyers of businesses.

They're all about spotting good deals and investing directly in them. They call it "Deal Flow" and I find that the HWD app for Real Estate Investors is ideally suited for funneling and filtering not only real estate investment opportunities, but ALL investment opportunities, because it contains an Average Profile feature for describing the KINDS of quirky situations you're looking for, then MATCHING actual opportunities with them.

I hope you'll take a half hour to watch this demo video and let me know what you think. It could form the spine of a Family Office and be its Management Information System, and sit right there as a second tab in QuickBase next to the app you're already using (or will be using) to run your business.

(In my research so far, I've also learned that Family Offices typically spend hundreds of thousands of dollars on Information Technology [IT] for custom systems and reports that support their quirky activities, investments, and projects. Right before us, at our fingertips right now, is a platform that I feel can radically decrease those costs and simplify operations, which is another reason why I'm in touch with Richard's office there in Key Biscayne. I've also shared the above demo video with him and his folks.)

In Chapter Two Richard writes about a "Family Compass"; and in that chapter, he shares findings from a survey he did of established family offices. In that survey he asked whether they had these seven things in place:

1. Advisory Board
2. Formal Investment Committee
3. Independent Investment Consultants
4. Direct Investment Acquisition & Deal Flow Team
5. Dedicated Office Space
6. Professional staff from outside the family, and
7. A Formal Family Charter.

He found that less than half of all family offices have these things in place. So even though they EXIST, even though they're "ultra wealthy", they're also half-baked and, like I say, reactive. From all of this I gather that normally, ultra wealthy families form family offices as a reaction to a misfortune; then, as is so typical of human nature even among the elite, they do the bare minimum that they feel is necessary to prevent repeating the misfortune.

In other words, they put a band-aid on it.

In Chapter Two, Richard's message is that the First Thing should be the Compass. Here are a few noteworthy quotes from that chapter:

> *"Our team worked for seven years without values defined. To connect our team further, we defined our seven core values and within two weeks of defining them clearly, we fired two of our team members and "gracefully exited" a family office who had us on a $7K/month advisory retainer because all of those professionals were clearly at odds with what we stood for and the goals we were trying to accomplish" (17).*
>
> *"I have met face-to-face with over 1,000 family offices globally, and I can count on one hand how many have all five of these points (Ethics Policy Document, Core Values, Investment*

*Mandate, Key Performance Indicators, Systems & Processes) in place and updated" (19).*

*"Your Family Compass does not need to be a professionally bound, 200-page manifesto. Whether it takes your family two long weekends to come up with ten pages documenting beliefs, priorities, and objectives, or whether it takes you three years to put this together, the process of doing this is part of the benefit. Many times these topics get very little, if any, table time at family gatherings and meetings" (19-20).*

*"While the next few chapters dive deeper into the process of creating your family office, it all is based on reading your Family Office Compass first and knowing where you want to go. I have had dozens of conversations with journalists, radio hosts, and ultra-wealthy families who ask me about my recommendations and guidance on what to do first while creating a single family office.*

*I always have the same initial reaction to the question: **Nothing**. Do nothing until you know exactly what you want and don't want, and what your priorities, objectives, mission, and values are from the very start" (21).*

*"At the very least, every single family office should have a 1 pager of governance rules in place, and there is no excuse not to have that very minimal level of rules in place before Day 1 of operating" (55).*

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Before I looked at this book, I began to brainstorm with myself: "What's next for you?" I began a sort of to-do list, thinking that perhaps we should schedule at least one focused work session for each item on it, and I still think we should.

After reading the book, I realized that the things on the list are just a beginning; and after that, there will be more just over the horizon. One thing leads to the next. And I realized that I was falling into the same bare-minimum trap into which ultra-wealthy families fall in developing *their* half-baked family offices.

But after reading the book, I wondered to myself whether we should heed Wilson, and first create your Compass.

What do you think?

Now I'm not yet a billionaire or even half-billionaire. At the moment I'm still working on my first half-billion.

But I can tell you this: my hope for my son and our posterity is that they enjoy happy intact families. And I've told him that the greatest thing that can hold a family together or tear it apart is ***Doctrine***. By that I mean, whether they agree about what they believe to be true; whether they share a common creed.

If they agree, they'll work smoothly together. If they don't, they'll quarrel and disintegrate.

(Now, you may feel you have that handled presently, in your fairly civilized homogeneous town, with most of your chicks still gathered under one roof where you can keep an eye on them and interact directly and regularly. Blink twice, though, and that won't be the case any more. They may be scattered hither and yon with kids of their own. Imagine how much more challenging it becomes when they marry, with extended families etc. perhaps scattered around the globe.)

After reading the book I thought, why wait until you're juggling half a billion dollars amongst kids, grandkids, great-grandkids, and in-laws to form your Doctrine? Why wait? Shouldn't everybody do that, regardless of their wealth level?

Doesn't it drive the future instead of following it? Wouldn't that be putting the horse before the cart, just like drawing a blueprint before building a house, or making a savings plan before accumulating the savings?

On this last point Wilson writes:

> *"The most successful process I have seen for transferring ideas from one generation to the next is using stories, having just a few core principles, and repeating these values often" (16).*

His own family crest is also very important to him. He puts it on everything.

From Wilson's work, I'm learning is that even the ultra-wealthy, while they may have family offices, do a sort of minimal, half-baked, reactive, crisis management job of it. And yet what they do isn't just beneficial to them; it would be beneficial for any family that is interested in sticking together and enjoying a hopeful future.

From this lesson, I find that a focus of my work, which I hinted at three years ago when I first wrote the Family Offices page, is becoming to help any and all families tool up to have their own family offices, that they might also reap the benefits.

I figure it is more like drawing a blueprint or laying a foundation. One needn't wait until one is "rich" to do this work. I see it as placing the horse properly before the cart and that most of the time, most of the world has been doing things backward . . . which, when you think about it, considering human nature, is quite typical and understandable.

But as Wilson points out, it could be so much better.

I am inquiring now into helping ultra-wealthy families who don't have a family office and need one, or who have a half-baked one that they want to complete. I'm learning that talent (like me) in the space is extremely rare and hard to find. Family Offices spend more than a year searching for it; and as you might imagine, if 95% of them are discreet, this discretion hampers their ability both to communicate the need and find the talent.

But here we are. You know me, and I know you, and I'm glad of it. Always have been.

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This brings me to our working relationship. Having come this far, what now occurs to me is that we are talking about some kind of rudimentary, Virtual Family Office that would consist at least of a Compass and a System. The Compass would help define priorities that would then be carried out in the System.

And my role in this would be, for lack of a better term, a "Founding General Manager" with "at-large" oversight responsibilities, doing whatever is necessary to help you get, and stay, organized.

During lunch, I shared with you the parenthetical lesson I learned in an Economics course. It wasn't in the textbook; it was just a side remark the professor made because he had personally been fascinated both by what characterizes wealthy families, and by what happened in both pre-war and post-war Germany: despite a total wealth redistribution or leveling of the playing field, because they had economic know-how, the same families who were wealthy before the war also became wealthy afterward.

And he talked about usual three-generation wealth cycle roller coaster, which I shared with you over lunch:

1. **Bootstrap** – those who create the wealth. The hard working patriarchs and matriarchs who were born hungry, who can remember when there was no food in the house, who stared suffering in the face, sprinted in the opposite direction, and never stopped. The sprint became a lifestyle, a habit, a way of being.

2. **Noblesse Oblige** – those who inherit the wealth and have a direct relationship with, or memory of, the Bootstrappers. They feel privileged and obligated to "give back."

They're not born hungry like the Boostrappers were. They may feel slightly ashamed of having been "born with silver spoons in their mouths", and shamed by their peers. Wanting to fit in and be liked, they may try to seem less privileged than they are.

Their attention is divided between stewarding their inheritance, and philanthropy or beneficence. Their motives for generosity may be a complex combination of sincere philanthropy and shame, perhaps a desire to "atone" for the "sin" of picking the right parents.

They may gravitate toward teaching, social services, volunteer work, or even voluntary poverty to "compensate" for what they see as their forebears' extremes. In their ambivalence, they may experiment with episodes of both self- and family-defeating opposition and subterfuge.

3. **Spendthrift** – those whose relationship with the Bootstrappers is faint at best. The Boostrappers' economic knowhow has not been passed onto them. All they know is, there is capital to spend, and they spend it until they're broke, until the estate is depleted.

At this point, the cycle repeats. Somebody gets tired of being hungry, and a new pattern begins.

The moral of the story is, recognize the long term futility of it all. Do what we can to prevent the roller coaster and get the family on a better footing of stable growth, wise stewardship, and effective philanthropy done with pure motives and clear, positive outcomes. Do what we can to connect the generations so that later generations respect and build on what the earlier ones began.

On page 20, Wilson describes the cost of not creating a Compass: family disputes, mismanaged expectations, loss of capital due to misaligned priorities within the family, slow decision making, lawsuits; in some cases it can determine whether a family sustains wealth through the second, third, and fourth generations.

In Chapter Six, on Governance, on pages 48-49 he gives four real world examples of costs of poor governance. I won't detail them here. You can see for yourself in the book. Suffice it to say, don't be those guys. Stressful and costly . . . no way to live.

Considering all that is at stake and all that could go both right or wrong, in my mind the question is:

*What would the value of making a good, thorough, yet optimal, beginning be?*

While I crunch numbers for a living, to me that would be a hard number to calculate. It would be priceless, invaluable. Nonetheless, we must try.

As we discussed over lunch, I'm thinking of a base and a percentage. The base would be for laying an organizational foundation and for keeping the status quo well in hand and under control and playing a good defense game, while the percentage would be a reward for progress toward larger goals and for coping with, and ideally preventing, growing pains – that is, playing a good offense game.

I'm thinking of a base at mid five figures, and a minority percentage ranging 5% - 25% depending on the Key Performance Indicators (KPIs) we choose. A base like that would make it possible for me to avail myself to you on call at pretty much any time as you asked, while at the same time giving me an incentive to be efficient; while the percentage would encourage me to help you progress toward your goals.

To make sure everybody remains happy, I'd suggest we make whatever agreement we choose reviewable and adjustable on its anniversary.

In my negotiations with others, once we've narrowed things down a bit, I've become accustomed to creating several options in which the bases and the percentages are inversely related, then running comparative, side-by-side projections of these options at varying KPIs to see which option would be the most mutually beneficial. I suppose we may want to do likewise.

Here are some KPIs that occur to me:

- Business Overhead – keeping it under control at a predetermined, fixed annual figure.
- Business Contribution Margin – revenues less the costs of generating them, which are all expenses that are not Overhead. Thus Break Even is when CM = O, and profitability is when CM > O.
- Business Owner Distributions, which are income to the household.
- Household Return on Investment
- Household Net Worth

I'd suggest we agree on KPIs, then use them as the basis, or bases, for the percentage, which we would also negotiate. Perhaps you have KPIs of your own in mind.

This thing has turned out to be a six pager, and I thank you for taking the time to wade through it. After you've had a chance to read it through and talk together, I suggest we schedule another working lunch to negotiate the particulars. What do you say?

Thanks very much for your attention and confidence. It's always a pleasure and a privilege.

For your continued success,

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