

# FAMILY FORTUNES



How to Build Family Wealth  
and Hold on to It for 100 Years

BILL BONNER AND  
WILL BONNER



# CONTENTS

Preface

Acknowledgments

Introduction

Chapter 1: Who Ya Gonna Call?

The Family vs. the State

Going Bust

“Nobody Really Starts with Nothing”

A History of Family Wealth

The Tax “Solution”

A Stab in the Back

The Family Office

The Family Balance Sheet

Human Capital

No Room for Retirement

Financial Capital

Enemy of the State?

Chapter 2: The Family

It Takes Teamwork

Life On a Dual-Income Treadmill

Everything Regresses to the Mean

The Role of the Matriarch

The Glue that Holds it All Together

The Three “D”s

[Seven Common Pitfalls for Wealthy Families and How to Avoid Them](#)

[The Matriarch of the Rothschilds](#)

[Growing Human Capital](#)

[Developing Your Family Culture](#)

[Family Values](#)

[The Family Business](#)

[How to Bring “Outsiders” into the Family](#)

[Fighting Addictions and Troublesome Family Members](#)

## [Chapter 3: What About the Money?](#)

[Most Charity is a Waste of Time and Money](#)

[More Harm than Good](#)

[Vanity](#)

[How Do you Accumulate a “Family Fortune”?](#)

[Now Back to Our Story](#)

[Are Stocks a Good Idea?](#)

[So How Do you Get Real Family Money?](#)

[Not So Fast](#)

[F-U Money](#)

[How Much Money Do you Need?](#)

[What Kind of Money is Family Money?](#)

[Financial Escape Velocity](#)

[Lock it Up!](#)

## [Chapter 4: Making Your Fortune in Business](#)

[The Best Way to Get a Fortune](#)

How to Build a Family Business  
One Step at a Time  
Learn at Others' Expense  
Don't Be a Pioneer  
Don't Be an Opportunist  
Don't Try to Do it On Your Own  
Morale and Why it Shouldn't Matter  
What Kind of Business Should you Be In?  
Work Hard . . . Get Lucky  
Compound Effort Over Time  
Where Do These Things Come From?  
Who Makes Money?  
Stay in School?

## Chapter 5: Making Your Fortune in Investments

The Key Variable  
Born Yesterday  
Born the Day Before Yesterday  
Desilusionado  
Stay Away From "Conservative" Investments  
Don't Chase Alpha  
150 Times Your Money in 40 Years  
The Beta Personality  
Alpha Matters, Too  
Capital Gains, Not Income  
Let Mr. Market Tell His Story  
Don't Take a Big Loss  
The Resource Advantage

[America Depends on Cheap Oil](#)  
[No Longer a Free Society](#)  
[Spurts Of Growth](#)  
[A Final Thought . . .](#)

## [Chapter 6: Our Beta Bets](#)

[Bet On the Losers](#)  
[Why Emerging Markets Will Outperform](#)  
[Developed Ones](#)  
[“Progress”](#)  
[The Chinese Century?](#)  
[What About the Internet?](#)  
[The Lost Century](#)  
[Big Trend No. 2](#)  
[Who Will Have the Last Laugh?](#)

## [Chapter 7: Hard Structures](#)

[A Will and an Estate Plan](#)  
[Back to the Beginning . . .](#)  
[An Intentionally Defective Trust](#)  
[Expatriate Yourself](#)  
[Using Tax Havens](#)  
[Taxes Are Largely a Matter of Culture](#)  
[An Overseas Account](#)  
[Americans’ Unique Tax Problem](#)  
[Five-Country Strategy](#)  
[Putting it All Together](#)  
[How it Works](#)

## Chapter 8: Creating Prosperity for Generations

Soft Structures

Getting Involved

The Heart of the Family Office System: The Family Council

What the Family Council Does

Who Should Sit on the Family Council?

The Family Council's Role in Trusts

How Multigenerational Families Grow Their Wealth

Set Your Priorities With a Family Mission Statement

The Family Constitution

Setting Up the Family Bank

Creating Permanent Leadership

How to Handle the Transition

Family Council Leadership

Disputes: Why They're Normal and How to Settle Them

How to Deal With Problem Family Members

Creating a "Family Republic"

Preserving Your Financial Legacy: How to Establish Your Investment Committee

The Wealth Strategist in Each Generation Leads the Committee

A Training Ground for the Next Generation: A Family Philanthropy

## Chapter 9: Families with Money

A Brother's Betrayal and the Liquidation of the Waxman Family Business

Brothers' Promise Turns into a Family Feud

Pay Two Estate Tax Bills at Once?

"Princess TNT" Saves the Royal Estate

The Public Spectacle

Beware of Parasites

The End of an American Dynasty

A Great Family Business Lost

Introducing the HÉNokiens

A Patriarch's Iron Grip Spells Trouble for a Family Business

## Chapter 10: The Family Stronghold

Where to Go?

A Place of Your Own

## About the Authors

## Index

# FAMILY FORTUNES

*How to Build Family Wealth  
and Hold Onto It for 100 Years*

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WILEY

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Published by John Wiley & Sons, Inc., Hoboken, New Jersey.

Published simultaneously in Canada.

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***Library of Congress Cataloging-in-Publication Data:***

Bonner, William, 1948-

Family fortunes : how to build family wealth and hold onto it for 100 years / Bill Bonner and Will Bonner.—1st ed.

p. cm.—(Agora series; 77)

Includes index.

ISBN 978-1-118-17141-7 (Cloth); ISBN 978-1-118-23987-2 (ebk); ISBN 978-1-118-26451-5 (ebk); ISBN 978-1-118-22684-1 (ebk)

1. Families. 2. Wealth. 3. Financial security. I. Bonner, Will, 1978-II. Title.

HQ734.B688 2012

306.85—dc23

2012015373

*This book is dedicated to our matriarch, Anne Bonner. She  
rocked the cradles . . . and our world.*

# PREFACE

What separates the rich from the rest of us?

Hemingway claimed it was the fact that they had more money.

Recently, we drove through a working-class neighborhood of Baltimore, called Dundalk. It is an area of simple one- and two-story wooden houses on small lots. Fifty years ago, it was where Baltimore's industrial labor force lived. The residents worked in heavy industries for companies such as Bethlehem Steel, General Motors, and the B&O Railroad and at the busy harbor.

Today, those high-wage industries are mostly silent and rusting. Some sites along the water have been converted into loft apartments for Baltimore's young professionals. And some of the children and grandchildren of the older residents have moved away—to the suburbs or to other cities.

But most of them are still there. Their parents and grandparents earned a good living. But few got rich. And now, few of their descendants are rich, either.

Across town, in the rich "old" northern suburbs of Roland Park and Ruxton, the people are different. The rich left the city many years ago. But in these green suburbs, they remain. Some richer. Some poorer. But by and large, they're the same people whose parents were there 50 years ago.

What accounts for it? How come some families stay rich generation after generation, while others never have a nickel?

"Culture," you will say. "Education," perhaps. You won't be wrong. But what, specifically, about culture and education is it that makes such a big difference in outcomes?

The secret is simply this: The rich take the long view.

Let me ask you something. If you thought you'd live forever, would you do anything differently? Wouldn't your attitude toward your money change a little? Wouldn't you slow down, realizing that you're not in such a hurry to make money? And wouldn't you reduce your spending, too, knowing that your money would have to last you a long, long time?

If you look carefully, almost all Old Money secrets can be traced to a single source: a longer-term outlook. The truly wealthy are careful to spend their money on things that hold their values over time.

It's why they do not trade in and out of investments. Instead, they find a few positions and stick with them—for decades.

It's also why they prepare their families, over the course of many, many years, so that they will be prepared for the challenges of managing and enlarging the family wealth.

It's why they invest in education and training. And why they make sure family members add to their collective wealth, rather than subtracting from it.

It's why they try to guide their children to suitable spouses. They know that a rotten apple will spoil the barrel.

It's why they spend time and money on lawyers and accountants, too, making sure that the structures are in place to pass along wealth and protect it.

It's why they prefer deep-value assets over momentum investing. Over time, value rises to the top. Momentum slows.

It's why they will wait a long time—many, many years—for the right investment at the right price.

It's why they like investments with long-term payoffs, such as timber, mining, and infrastructure. And it's how they are able to benefit from compound growth, letting relatively modest gains grow over several generations.

It's why they are almost fanatical about eliminating costs: taxes, investment charges, and unrewarding living expenses. They know that wear and tear, over time, will wreck their family fortunes.

It's why they develop long-lasting partnerships with the professionals they need to make sure their interests are protected and their plans are carried out.

It is all a matter of time. They have money. But they expect to have it for a long time. So they work hard, investing in education and professional advice, to make sure they have the personal resources they need.

As you will see in the pages that follow, the long view comes into play in almost everything. But it's one thing to talk about the "long view" and quite another to take it. What it usually means is something that most people don't want to do: give up something today for something tomorrow.

Psychologists have done some work on this subject. What they have found is what you'd expect. People who can forgo immediate rewards in favor of longer-term goals are more successful.

In one study, for example, children were offered marshmallows. But they were given a choice. They could have one marshmallow right away. Or if they were willing to wait, they could have two later on. The children were then filmed. They fidgeted. They fussed. They struggled to resist taking the candy, because they knew that two would be more satisfying than just one.

In the study, the average child held out for a bit short of three minutes. But about 30 percent of them held out for 15 minutes and were given two marshmallows.<sup>1</sup>

The chief researcher in these studies, Walter Mischel, had tested the friends of his own young daughters and was therefore able to keep an eye on his subjects throughout the years. As they grew up, he began to notice a link between his marshmallow tests and the girls' subsequent

performances in school. Curious, he followed up with a serious inquiry into how his marshmallow tests corresponded to other areas of performance. What he found was that, generally, the children who could not wait often found themselves in difficulty later on . . . either with behavioral or academic problems. They had lower SAT scores. They had trouble paying attention. Even their friendships were weak.

On average, the kids who could wait 15 minutes had SAT scores more than 200 points higher than those who could wait only 30 seconds.

In another study, researchers offered teenagers \$1 immediately . . . or \$2 a week later. They found the results were far better indicators of academic success than IQ tests.

But the researchers didn't stop there. The kids grew up, with the psychologists looking over their shoulders. The low self-discipline children became—surprise!—fat, unsuccessful adults.

In his testing, Mischel found something interesting and a little disturbing. Children as young as 19 months old could be tested, reliably, to see if they could delay gratification. If they could, they seemed destined for success. If they couldn't, they were surely going to end up in prison or the poorhouse. This made it appear to be a genetic matter. Either you were “born that way” or you weren't. But Mischel says it's more complicated than that. It's like learning to use a computer. You won't do it if you don't have access to a computer.<sup>2</sup>

Broadly, from our point of view, we interpret that to mean that you won't develop the capacity for forbearance unless you have a reason to.

If there is one thing that marks families with money over the long term it is this: delayed gratification.

There are psychologists who believe that the performance of different cultures can be largely explained by this single

point. Those who look ahead to the future and those that plan for it—surprise, surprise!—have better futures.

There are even some geo-theorists who believe that the relative outperformance of certain ethnic groups of people can be explained in the same way. How come Europe grew rich while Africa remained poor? How come North America is relatively rich, while South America is relatively poor? (However, this was a better question a few years ago, when the differences were more obvious.) How come, generally, colder countries are more successful than warmer ones?

The reason, they believe, is that colder climates force a longer-term view.

Believe it or not, there are still groups of primitive hunter-gatherers living on the African savannah. Anthropologists studying them have found little sense of the future. They do not prepare for it because they don't need to. One day's hunt is much like the next. One day's nuts and berries differ little from those of the day before. No need to think much about the future or to plan for it.

Presumably, people very similar to these primitive tribes spread into Europe and Asia, and there they encountered new challenges. Thirty thousand years ago, there were human tribes following the caribou along the face of Europe's continental glacier.

Near our house in France there is a cave that provides evidence. For thousands of years, a group of hunters made the cave a stopping point. But it was only a stopping point. They followed the herds of caribou that ranged over Europe at the time. As the weather changed, so did their lifestyle. They had to change their living patterns—and their living places—to keep up with the weather.

In cold climates, you need to stock food, clothing . . . and prepare shelter . . . in anticipation of bad weather. In some places, growing seasons are only a few months long. People had to work night and day in order to put aside enough for

the long, cold season ahead. Whether this brought about a change in the habits of mind that cause a person to think about the future—or whether the harsh climate merely eliminated people who could not prepare for it—we don't know. But somehow the idea took . . . and became more than an idea; it became a cultural rule.

No doubt, the notion that thinking ahead pays off was reinforced by the introduction of agriculture. It was one thing to gather wild grains. It was quite another to plant them. Planting required prepared land, seed and, in the warm, dry climates of Mesopotamia and Egypt, irrigation. All of these things forced people to think ahead. And they required sacrifice in the present for the sake of the future.

How many families went to bed hungry rather than “eat their seed corn”? They had to sacrifice . . . to forbear . . . to discipline themselves to not eat the kernels of corn they had spared for planting, or they would not have any corn to harvest the next year. People must have also learned to save not only *some* corn, but the best corn, for those were the best seeds. So a family had to deprive itself of its best food . . . in order to have more later on.

A quick look at a map will also reveal another curiosity. Look at places that are rich. Then look at places where people are poor. Take Haiti, for example. It is one of the poorest countries on Earth. It is also one of the easiest places to grow food. Go figure. Want to find other easy places to grow food? Just look at some of the poorest countries in the world: the Democratic Republic of Congo, Burundi, and Liberia.

Now take a look at Switzerland. It is perhaps the richest country on Earth. It is also one of the hardest places to grow food. Go figure again. And look at other relatively rich countries: Sweden, Norway, Denmark, Germany, Britain.

Is it a coincidence that these are difficult places to grow food? Where, for thousands of years, people had to look

ahead, plan, and prepare in order to avoid going hungry?

Of course, there's more to the story. Take West Virginia. On the surface of things, West Virginia and Switzerland are almost twins. Both are mountainous. Both are landlocked in the middle of great economies. Both are inhabited almost exclusively by people of European descent.

But the similarities end there. In terms of resources, Switzerland is poor. West Virginia is very rich. While Switzerland has little timber, little arable farmland, and few mineral resources, West Virginia has almost unlimited supplies. Its oil and gas resources, for example, could power the entire United States for more than 100 years. It doesn't have wide, flat fields, but compared with Switzerland, it has much more useful, fertile farmland; its mountains are not as high or steep. It also has timber and water resources in abundance.

Oddly, in terms of earnings and net worth, there is an even further divergence, but in the opposite sense: The people of Switzerland are the richest in the world. The people of West Virginia, however, are among America's poorest. How could that be?

We don't know. But the cultures are quite different. Switzerland evolved a forward-looking, patient, and self-sacrificing culture. Perhaps it was the long, snowy winters that exaggerated the "prepare, prepare, prepare" culture. The Swiss build houses out of concrete, stone and solid wood, according to the toughest building codes in the world. They even have to have bomb shelters . . . with food and supplies stocked up against disaster. They also have, per capita, the biggest intergenerational wealth transfers in the world.

We know West Virginia fairly well. It is perhaps our favorite state. But it is also a puzzlement. There are rocks and trees everywhere. Compared with the soft, funny-shaped rocks of Poitou, France, where we've spent years repairing stone

walls, the rocks in West Virginia are a stonemason's dream. They are hard ... and often rectangular. They practically lay themselves.

As for the timber, imagine the envy in a Swiss woodsman's eyes when he sees it. The old hardwood forests of Switzerland must have been cut down centuries ago. What is left is controlled growth, mostly conifers, which have nice qualities of their own, but are in no way equal to the majestic oaks, beeches, and hickories of West Virginia's green hills.

The first settlers used the trees to build log cabins, mounted on stone foundations. Later came two-by-fours, aluminum siding, and drywall. Not to mention tarpaper and mobile homes! Even in the twenty-first century, many of the houses you will see in West Virginia are shacks—architecturally disgraceful, uncomfortable, charmless, and temporary. Compared with the sturdy Swiss chalet, the common West Virginia house is little more than a hovel.

What's more, when you look at almost any house in Switzerland, what you don't see is as telling as what you do. Before your eyes, you will find a handsome building, designed to last for centuries. You will not see any of the typical lawn decorations so popular in West Virginia. There are no rusty automobiles with their hoods up and their wheels off. There are no refrigerators lying on their backs, as if killed in battle and left to lie where they fell. Nor will you see lawnmowers, tractors, cement mixers, children's toys . . . or any of the other paraphernalia that West Virginians use to fill the empty places in their parks and gardens. No one knows why this is the case, but we will put forward a hypothesis: They are victims of abundance.

In Switzerland, the approach of winter meant many months with little access to food. It required the Swiss to think ahead, to plan for the lean months. You might think the same phenomenon would shape the culture of the

mountain men of West Virginia, too. But the Mountain State is a much richer place. And it was settled—at least by Europeans—after the invention of the efficient hunting rifle. The first European settlers, tough Scots-Irishmen, found plenty of game, even in winter. They were much better armed than the “Indians” who preceded them. They found it relatively easy to feed themselves.

In fact, according to some reports, the native tribes had bad habits of their own. They didn’t have to work too hard to survive, either. And when the first white men learned from the natives, not only did they pick up their skills, but they took up their insouciant attitudes.

Even today, the mountain men do not seem particularly concerned with planning for the future. When the going gets tough, the tough men of the Appalachians go hunting. Just like the Indians.

As for their miserable lodges, the settlers merely picked up the habits of the migratory hunters who preceded them. There was no need to build lasting structures; they would move to the next valley . . . the next hollow . . . the next county . . . soon, anyway. And why not throw the refrigerator out the door? It was such a big wilderness . . . so rich in everything, especially land. Throw out the trash and move on. The attitude was well adapted to the place. Why go to all the trouble of building proper garages—and proper houses—if you’re going to move on soon, anyway?

But it is not an attitude that encourages long-lasting wealth. We must be more like the Swiss and the Dutch than the West Virginians or the Haitians. We have to make sacrifices now, for the benefit of the future.

Unfortunately, it may be a future in which we personally cannot participate. For it is a distant future we are talking about, 20 . . . 50 years ahead.

It is only by looking ahead, into a future we may not be able to see with our own eyes, that we can build enduring

wealth. And by the way, there's more to "wealth" than just money.

One thing you can see for yourself: Rome wasn't built in a day. Nor were the Jardins du Luxembourg. The architectural wealth of Europe is the result of centuries of investment and preservation. The hovels and shacks disappear. The Louvre and Versailles are still there. They are part of Europe's public wealth.

There is immense private wealth, too. You can have an ugly house. Or a pretty one. The values, from a tax—or even a market—standpoint could be the same. The pretty one takes more effort to get right. Even over generations.

We bought the Chateau d'Ouzilly for a pittance in 1994. The owners sold it to us because they could no longer afford to keep it up. We discovered that we could barely afford it, either. The correct translation of the word *chateau* is "money pit." Most people would argue that it is a wealth destroyer, not a wealth builder. Most people would say that it is a way to deprive future generations of wealth, not to save it for them.

But life is funny . . . curious . . . and full of ironies. The previous owners had bought the chateau for nothing, paying for it in revolutionary scrip during the French Revolution. The local nobility had fled France for their lives. The chateau was there for the taking.

By the 1970s, however, the lands around the chateau had been divvied up by successive generations, and the remaining fields—about 300 acres—were not enough to support the house and the family. It had to be sold.

The seller told us that the weather was always good in the summer. "It never rains in July or August," he claimed. As for the roof, "It never leaks." One day in July, soon after we bought the place, we discovered that he had lied twice.

It would surely be cheaper and easier to repair the roof of a small house in West Virginia than to fix the roof of a

chateau in France. The *ardoise* (local slate) costs a fortune. But when it was done, what did we have? We had a chateau that was dry and a roof that would last for maybe five times as long as we will. It was costly. But perhaps our children and grandchildren would thank us, for we could give them a long-lasting asset.

All over France, there are relics of the “chateau age.” Some are assets. Some are not. Where owners have not fixed the roofs, the chateaux are liabilities. But where the owners have kept them up, they are assets that can last for generations, assuming the French government doesn’t tax them too heavily.

The same general comments could be made—with fewer “if”s, “and”s, or “but”s—regarding gardens. In Europe, too, you will find gardens that were planted to increase the wealth of future generations, not necessarily the people who planted them. At our place, for example, we put in an *allee* of plain sycamores. Alas, the trees grow slowly while their owners age quickly. They will not reach their full majestic payoff until this author’s grandchildren are as old as he is.

The present generation, those who plant, are arguably as impoverished as those who replace a slate roof. But those who reap the rewards are enriched. Time has worked its magic. The future generation enjoys stately trees that took a lifetime to grow.

Again, you wouldn’t plant trees unless you planned to stay around—or, more correctly, you planned that your descendants would stay around . . . or perhaps that someone would stay around who would appreciate what you had done.

Another group that has been extraordinarily effective at creating and preserving wealth is the Jews. Many Jews throughout history have worked not as farmers, but as tradesmen, merchants, doctors, teachers, and moneylenders. Frequently, if not generally, they were

denied ownership of land. They couldn't plant trees. They couldn't plant anything. Often, they didn't have the need to "save the seed corn." You'd think they would be the biggest spendthrifts and "live for today" crowd on Earth. But they are not. They are careful with wealth. And extremely forward-looking. Why?

Well, one thing that comes readily to mind is that Jews are also extremely oriented toward their own history. And history is a kind of future in reverse. Perhaps it gave them the same focus on the need for preparedness.

Jewish history is a long story of disasters, one after another. Many of those disasters involved avoiding extermination by fleeing. And fleeing costs money. The Jews, perhaps more than anyone, had to think ahead. They had to be prepared. At any minute, the heavy boot of the state or the mob might come down on them. They could not plant trees. But they accumulated wealth, often in the form of gold and diamonds. It is no coincidence that they are the world's leading moneymen today.

In fact, with the Jews in mind, we might broaden our hypothesis into a general theory:

Adversity leads a people to appreciate preparedness. Wealth is preparation in negotiable form.

The first chapter of this book addresses the objection: Why would you bother? Can't we safely assume that the supply channels will keep the supermarket shelves stocked, winter and summer? Aren't the pogroms over? Isn't the desire to stockpile grain—or wealth—for generations a bit useless and anachronistic, like a prehensile tail? Besides, it would be so much more fun to spend your money now, wouldn't it?

Assuming you have jumped that hurdle, the following chapters suggest ways to do it.

Not that we, your authors, are experts on the subject. We are just learning. But we happily pass along what we think we have learned and/or figured out on our own. Whether it

is correct or not—or whether it is useful or not—you will have to judge for yourself.

But the main point is worth keeping in mind: This book is not about getting something. It is about giving up something. It is for the planter. For the roofer. For the builder. For the saver. It is for the person who wishes to make a sacrifice—even if it is a relatively agreeable sacrifice—so that others may benefit from it, perhaps others whom he will never meet.

Bill Bonner

## Notes

- [1.](#) Yuichi Shoda, Walter Mischel, et al., “Predicting Adolescent Cognitive and Self-Regulatory Competencies From Preschool Delay of Gratification: Identifying Diagnostic Conditions,” *Developmental Psychology*, 26(6) (1990): 978–986.
- [2.](#) Jonah Lehrer, “Don’t!: The Secret of Self-Control,” *The New Yorker*, May 18, 2009.

# **ACKNOWLEDGMENTS**

Special thanks to Robert Marstrand, Chris Hunter, Kat McKerrow, Susanne Clark, and Elizabeth Bonner for their generous help in preparing this book.

# INTRODUCTION

## FAMILIES THAT WON'T FAIL AND MONEY THAT WON'T DIE

Much of what most people think about “Old Money” families is wrong, including much of what many Old Money families themselves think. You probably have an idea about what kinds of people they are. And you’re probably not too far off. But there are too few of them, and they are too varied, to provide a meaningful stereotype. Some are smart. Some are dumb. Some show off their money; others don’t. Many—perhaps most—are so discreet that we don’t know who they are and what they do.

For those and other reasons that will become obvious, we have chosen prescriptivism over descriptivism. That is, we will prescribe what we might call the “ideal” Old Money. We tell you what we think Old Money ought to do, what it ought to think, and how it ought to manage its wealth.

For example, you probably imagine that serious Old Money families are very conservative with their wealth, favoring “safe” U.S. Treasury bonds over riskier stocks and bonds. And if you have a lot of money, that is exactly what the typical investment advisor will tell you to do with it. You need to play it safe; stick to bonds.

But if you depend on wealth “professionals” to help you manage and protect your money, you are already making a big mistake. Most financial professionals are good at mixing drinks; some are excellent raconteurs. You shouldn’t let them near your money. As for U.S. Treasury debt, it is probably one of the riskiest investments you can make.

In this book, we talk about Old Money not necessarily as it is but as it should be. And it should be very different from what you probably imagine.

It is commonly believed that seriously rich people should withhold money from their children in order to toughen them up, so that they will “find their own ways” or “make it on their own.” Many favor giving their fortunes to charity in order to avoid corrupting their own kin.

This is nonsense, in our view. All wealth either is consumed or must be owned and managed by someone. Serious Old Money accepts the responsibility of taking care of its own money and preparing the next generation to do likewise.

Besides, most charity efforts squander wealth, and many harm the people they were meant to help.

Everyone knows, also, that you should try to give your children as much education as possible. But that, too, is wrong.

And so are Warren Buffett and the other super-rich people who think paying higher taxes will be good for the country. It won't be, and Buffett must know it.

The closer you look, the more you see that the ideas most people have about wealth—and how to hold on to it—are silly, superficial, and probably a kind of financial suicide.

Not that we claim to have the ultimate truth on the matter. But, at least, we can see that most of the ideas you find on the subject are humbug.

As you will see, family money is very different from other kinds of money—even the money of the rich. It requires different treatment, different management, different security measures—a different investment philosophy—even a different cultural bias.

There are a lot of families. And there are a lot of rich people. But there aren't many rich families, at least not for long. And there's a good reason. Keeping money and the family together over longer than a generation is tough.

Statistically, it's unlikely. Practically, it's hard work. Most people don't even want to try. Because it's too hard. Or because they don't even think it is a good idea.

Real family money—Old Money—is rare; it's way out on the edge of the bell curve. And it involves sacrifice, not self-indulgence. It involves giving up, not getting. It involves more work, not more leisure.

It is a challenge, not a reward.

But if you are the sort of person to whom this challenge appeals, the rewards can be very substantial.

Let's say, for example, that you're able to put \$1 million in a family trust. If you organize it correctly and get a rate of growth averaging 6 percent compounded (there are some very important tricks you need to know), your grandchildren could have \$18.4 million in 50 years.

But there's much more to this than money. In fact, money is the least of it, the easiest part of the whole program. Nor is it the biggest benefit. Not by a long shot. This is not about making or preserving money. It's not about gaining fame and fortune. It's not about living the good life of luxury and ease.

It's about building the kind of family that can maintain its wealth and independence over generations. This is no easy feat. It's against the odds. It's almost against nature itself. Nature always tries to drag a family back down to the ordinary. And most ordinary people don't have any wealth to speak of. So if you're going to have wealth—and hold on to it for longer than a single generation—you're going to have to do some rather extraordinary things.

Such as?

Well, once you've made money, you might think the hard part is over. You might think you don't have to take chances or work so hard. All you have to do is to put the money into "safe" investments and kick back, right?

Wrong. The “safest” investments always turn out to be the most destructive, from a long-term perspective. And besides, you can’t afford the low returns that these supposedly safe investments bring. You need investment returns *higher* than average. That means you need an entirely different investment approach.

The key to this approach is that you have to learn to use time to your advantage. Time works against almost everybody. But if you want your family to maintain wealth over several generations, you have to make time work for you or you’re doomed.

Time destroys fortunes in obvious ways, and in some ways that aren’t so obvious. Each year that passes imposes costs: living costs, taxes, maintenance, and so forth. There are also investment costs: fees, commissions, charges. Plus, there are inevitable setbacks: bear markets, errors, oversights, inflation, crashes, fraudsters. All cost you money, sometimes big money.

You have to limit these costs, which isn’t easy, and you need to earn higher rates of return to offset them. You can do it, with a little luck, if you let time work for you.

The typical investor is betting against time. He buys a stock. He hopes the stock will go up . . . and that he will then get out before time takes it back down again.

But if you’re willing to let time help you, you can wait long enough to see what direction the *market* is taking. The big trends are long-term trends. The last big bull market on Wall Street lasted 25 years. The bear market before that lasted 16 years. The bull market in bonds began in 1983 . . . and it’s still going on. These are the trends that pay off. And if you listen and watch carefully, you can see them coming and going. And you can use them to limit your losses and improve your gains.

But that is not the most important thing. Time also has a devastating effect on families. People grow old. They’re no

longer able to do the work required to maintain a dynamic, capable family. New family members are often less able or distracted. Husbands, wives, children—every new family member comes with risks attached. And over time, one or two of those time bombs is bound to blow up.

More important than the money, the family has to be kept strong and healthy. A strong family can make money. A weak family can't even hold onto money that someone else made. A strong family can build and develop business opportunities. A weak family can only fumble and destroy them. A strong family can meet its financial, business, and other challenges. A weak family collapses under the pressure of them.

So how do you use time to make sure you have a strong family?

Well, that's the real secret of Old Money families. And it's a story that is scarcely understood by anyone. The key is that Old Money families are very, very different from regular families. And they are not at all what most people think they are.

They are not "conservative," in the usual sense. Instead, they are active and forward looking.

They may or may not live in luxury. But they always take care to live well.

They do not spend their time in idleness and leisure. Instead, they are engaged in business, investment and family activities.

They do not even rely on Old Money. They know that each generation needs to renew and rebuild its wealth—and itself.

You may find our view of Old Money surprising. In fact, a lot of people who actually have Old Money may find it surprising. For it is not merely a view of what people with multigenerational money do; after all, some are just lucky. It is not merely a sociological or financial study.