

## HIGHTOWER PALM DESERT - WHITE PAPER SERIES



**DON'T JUST TRANSFER WEALTH - TRANSFER VALUES**  
BY ROBERT SCHEIN, PARTNER & MANAGING DIRECTOR

**THE PROBLEM:** People who create significant wealth have to consider how, when and to whom they will pass on their fortunes. Legacy choices can range from endowing heirs with big inheritances to supporting cherished causes and philanthropies. In deciding how to dispose of their personal fortunes, the wealthy inevitably end up revealing the values they attach to money. And if they haven't transferred those values to their heirs, the outcomes can be devastating, both emotionally and financially.

**HOW WEALTH GETS TRANSFERRED:** Gina Rinehart is an Australian mining tycoon who became a major shareholder in various media organizations. Last May, *BRW* (formerly *Business Review Weekly*) named her the world's wealthiest woman. Also last year, three of Rinehart's four children brought legal action against her over her alleged delay of the vesting date for the trust fund of which they are beneficiaries. During this battle, Ms. Rinehart said her kids "lacked the requisite capacity or skill, knowledge, experience, judgment or responsible work ethic" to manage the business and their inheritance.

In contrast, Warren Buffett's heirs have seemed perfectly content to watch most of his billions pass into the charitable foundation that was set up by Bill and Melinda Gates. Buffet did generously endow his children's independent foundations, giving each of them \$1 billion to pursue his or her own version of philanthropy. But according to the *New York Times*, the three Buffett children have long been aware of their father's contempt for inherited wealth. Howard Buffett said, "It was always clear we were not going to get a lot of money."

Here are two very wealthy families with two very different outcomes regarding the disposition of that wealth. One family is marked by rancor, distrust and secrecy; the other demonstrates shared values and expectations. What can we learn from their examples? The answer, not surprisingly, is that communication is the most vital component of any relationship.

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**TEACH YOUR CHILDREN WELL:** Like Buffett and Rinehart, many wealthy parents today are reluctant to simply pass wealth along to their children. According to U.S. Trust's annual *Insights on Wealth and Worth* report, only 55% of Baby Boomers think it is important to leave a financial inheritance to their children. Today's Boomers want their kids to earn success through the same struggles that helped the parents become prosperous.

But more alarmingly, many wealthy parents are not following Buffett's model of clear communications about family finances. In the U.S. Trust report, only 50% of the respondents said that they had these conversations. When asked why, parents expressed concerns that if their children knew of their wealth, they would become lazy, make poor decisions, or squander the money. This reluctance to discuss finances for fear the kids wouldn't be able to handle the information then creates a self-fulfilling prophecy. Wealthy parents don't raise their children to understand and manage wealth, so the kids don't. The attitude that "we don't talk about money in our family" also breeds mistrust, with family members spending time and energy trying to ferret out family secrets.

Parents at any income level should make sure their children receive strong financial educations. This can be tailored to their ages and needs, with an allowance serving as a good starting point. As they mature, topics like summer employment, budgeting, credit cards, and charitable giving can be eased into the conversation. Members of wealthy families also need to understand the basics of wealth management. This will help them face the additional challenges that await them, including understanding trusts, making philanthropic decisions, and working with investment professionals.

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**HOW WE APPROACH THE TRANSFERENCE OF WEALTH:** When meeting with clients, HighTower Palm Desert advisors explore the “whys” of investment philosophy as well as the “hows.” We believe that questions like “What is important to your family?” and “Do you feel your family has a responsibility to society?” are every bit as important as those pertaining to risk tolerance and assets. Questions like “How much do your children know about their inheritance?” and “How confident are you that they have the judgment and skills to manage their inheritance?” can help parents focus on broader issues of legacy planning.

The goal of estate planning is often to benefit a client’s children, so we believe in trying to include them in our discussions as early as possible. This opens the opportunity for parents to express their values and expectations regarding the family’s fortune. HighTower Palm Desert’s advisors can help to bridge any gaps in communication, and we can use our outside perspective to help illuminate goals. As family members discuss what money means to them, shared values can be identified and developed, building trust across the generations.

**CONCLUSION:** Accepting advice and opening up family discussions cannot be achieved without a foundation of trust between an investor and their financial advisor. It is extremely important for a financial services firm to work in a transparent environment, where advisors have no motivation but to meet the goals of their clients. HighTower Palm Desert advisors strive to create investment plans that work well across generations. We understand the need to have an advisor grow with the client’s family and connect with heirs and heirs-of-heirs. Through a collaborative and consultative relationship, we form sustainable partnerships that focus on doing what is best for the client, today and over time. Our clients know that when we work on their estate planning, we’re working hard to support their wealth, their legacy - and their values.

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