

## FIVE QUESTIONS EVERY WEALTHY PERSON SHOULD ASK

By Michael W. Sonnenfeldt, Founder and President, TIGER 21

**There are many opportunities and challenges that can come with significant wealth. As the Founder and a Member of TIGER 21, the premier peer membership organization for high-net-worth wealth creators and preservers, I have been able to hear first-hand the extraordinary stories and insights from many of our 600 members who collectively manage personal assets of \$60 billion. Here are five of the top questions that the wealthy need to ask themselves along with answers on how to preserve their wealth.**

### 1 HOW DO I PROTECT MY WEALTH?

What I've learned from my years of being a serial entrepreneur is that just because you know how to start and run a business, doesn't mean you know how to invest and manage your money. It is never too soon to get smart about managing your money. Begin your education as soon as possible because becoming financially literate is the first step to protecting wealth. If you are trying to learn about investing, my advice is read, read, read.

One of the most valuable lessons that I have learned is that diversified portfolios of investments can sometimes allow two people at opposite ends of a trade to both be successful investors. A well-structured portfolio that balances the risks within it limits unwarranted exposure, and still is able to generate acceptable financial returns. However, diversification is not so easy to achieve. Each investor has to come to an understanding of what prudent diversification is for him or her.

Another important aspect of your portfolio to focus on that is often overlooked is estate planning. With just a modicum of estate planning, entrepreneurs could leave their heirs with much more. Benjamin Franklin warned, "In this world nothing can be certain but death and taxes." However, many successful entrepreneurs, for example, fail to prepare for these certainties until they are well into middle age and often after they have sold their businesses for millions of dollars. Preparing early can make the difference between preserving a company after an unexpected death or losing it. There are other circumstances such as owning real estate, private companies, farms or other illiquid assets, where proper estate planning and, perhaps, a life

insurance policy can dramatically increase the net proceeds one can leave to their heirs. In many instances, the right kind of estate structure avoids having to liquidate assets to pay estate taxes that one hopes to pass on to future generations.

One way to understand this is to realize that we actually live in an after-tax world, and if you are thinking multigenerationally, what your children will inherit will be after estate taxes, too – but we tend to think in a pre-tax world. Understanding the short and long-term income, capital gain and estate tax implications of decisions will maximize what is important – the after-tax results – allowing you to avoid being sidetracked by pre-tax distractions.

Perhaps the biggest insight here is that managing money well is really hard. The biggest mistake of all is to think it is easy and not to take the task seriously enough so that you make foolish decisions. If you start out understanding or assuming it is really really hard – maybe harder than any other intellectual challenge you have ever mastered, you might be lucky enough to approach the challenge of preserving wealth with the level of humility that might allow you to avoid some of the most common mistakes.

### 2 HOW DO I IDENTIFY BLIND SPOTS?

At TIGER 21, just about every monthly meeting includes a member participating in a process we have honed over twenty years called a "Portfolio Defense", where we critique the choices a member has made in their financial lives. Members often prepare their Portfolio Defense for days or even weeks in advance, and the actual defense typically lasts for 90 minutes, covering every stock, bond, private investment, fund position, piece of real estate the member owns – and in some cases, their philanthropic interests, and their detailed family structures and responsibilities. The numbers come to life when members share their answers to a detailed set of questions about their goals, personal life, family, and their anxieties about protecting their wealth and transferring it to children and charities. The questions that members ask the "defender" force him or her to contemplate the meaning of wealth in their lives and the impact they can have in terms of philanthropic, political, as well as family goals and interests. Most importantly, it forces members to be explicit about their goals to make sure they make sense and are internally consistent with one another, and can be understood by others – whether family or advisors.

A Portfolio Defense is no easy task but it is critical to scrutinize your investment portfolio and your approach to estate planning to ensure that you minimize the potentially devastating impact of blind spots. For example, I recall a memorable Portfolio Defense about a decade ago that revealed that a member had 75 percent of his assets in just one fund. The returns were excellent but the consensus of the group was that putting more than half of his assets in a single fund was way too risky. For most of us, putting even 20% in any one investment as a passive investor would seem imprudent. This member quit the group shortly after he decided our insights were not for him. He didn't want to move away from his large allocation to one fund – because the returns were just too good. He had no interest in pulling his money out of a fund run by one of the top traders in the United States – Bernie Madoff. His massive loss could have been avoided if he had listened to his fellow members' advice or considered that he was violating some pretty basic rules about investing.

### 3 HOW CAN I PROTECT AND EMPOWER MY KIDS?

Passing on wealth to children is an important issue. The number one question on the minds of most of our members is: "How do I support my children without spoiling them or destroying their ambition?" Members are also concerned with "What percentage of one's wealth should they leave their kids, and at what age?"

Additionally, "How should the wealth be distributed? Left equally to each child or is there another more equitable basis?" My own conclusion is that any will should generally treat children equally because an inheritance that is unequally shared has the potential to leave deep emotional scars in the children who inherit less – unless there are truly extenuating circumstances such as medical or developmental issues, which might require special trusts after parents' die, or the imbalance reflects deeply-held family values, which have been discussed repeatedly with the heirs so they can relate the distribution to the benefactor's values.

When thinking about how to empower my kids, I recently had a "wow" moment. Instead of thinking about "giving" my wife's and my assets to our kids, I now think of it as "investing" in their future. Investing implies a partnership and a purpose, and maybe even a bit of accountability. I started to see paying for graduate school as investment in the future rather than an expense. My advice is: don't give your kids anything, but be willing to invest everything in them. The goal should be to equip and train kids to understand the meaning of wealth and how to prudently manage it to allow for a productive and purposeful life.

### 4 HOW SHOULD I ENJOY MY WEALTH?

The ability to get away from day-to-day concerns can free the mind to focus on the bigger picture and to keep an eye out for other opportunities. I spend a lot of time away from the office – as much as 20-30 trips each year, and many are for multiple business reasons with a good amount of personal time mixed in as well. It can be helpful to get away from the office regularly so you can recharge your batteries and think. Thanks to smartphones and the Internet, I am able to be reached 24/7/365. This allows me to be as connected as I feel I need to be. It is never too late to seek a better balance in your life.

Most TIGER 21 Members live on roughly 2% of their net worth. To some this will seem like a lot because in absolute dollars it might be. But to many others it will seem like far too little. For people grappling with a starting point, the 2% rule has proven to be one of the best. For those reluctant to spend any of their inherited or accumulated wealth, I often ask "what's the point of creating or inheriting wealth if you don't spend it wisely and well – but also enjoy it?" On the other hand, for those who say 2% is too little, I can only offer that spending more can often be unsustainable in the long run (if you want to preserve the buying power of your capital). Balancing these various factors can be one of the most difficult to come to grips with, but when you do, it is incredibly liberating.

### 5 WHO CAN I TRUST?

When you are wealthy it can be hard to know who to trust – you often find yourself wondering if people are interested in you or your money. Try to assemble your own group of trusted advisors to help you evaluate how well you are managing your business, your money, and your personal life. Being a member of TIGER 21 is like having your own "personal board of directors," powered by the collective intelligence of a group of exceptionally successful wealth creators, in a confidential setting within the safe harbor of a non-selling, no-promotion zone.

Whenever a major decision emerges in my life about business, investments, philanthropy, and even family, concerns, I have trained myself to ask, "Who in TIGER 21 can give me the best counsel on this?" In almost every case, there is a fellow member that has some incredibly important experience or insight to offer.

For more answers to your questions on protecting your wealth as well as tips for successful entrepreneurship, read Michael Sonnenfeldt's new book, *Think BIGGER and 39 Other Winning Strategies from Successful Entrepreneurs*, which is available in print, on Kindle, and on audiobook.