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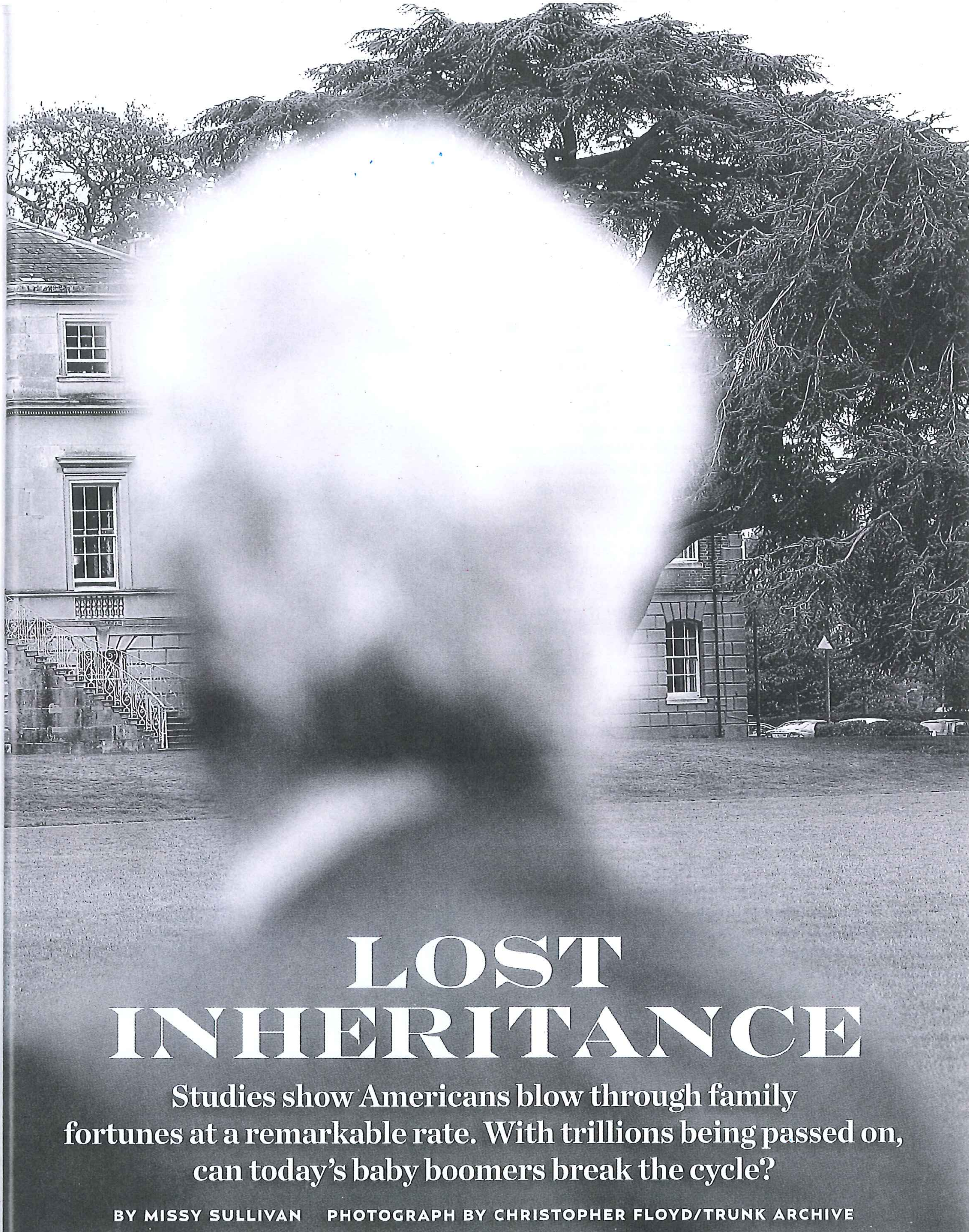
WSJ. MONEY

$7.6 TRILLION: WILL BOOMERS BLOW THEIR INHERITANCE?

THE NEW ASIAN CAPITAL FOR MULTIMILLIONAIRES

MARK CUBAN: HOW I BUILT MY EMPIRE



LOST INHERITANCE

Studies show Americans blow through family fortunes at a remarkable rate. With trillions being passed on, can today's baby boomers break the cycle?

BY MISSY SULLIVAN   PHOTOGRAPH BY CHRISTOPHER FLOYD/TRUNK ARCHIVE

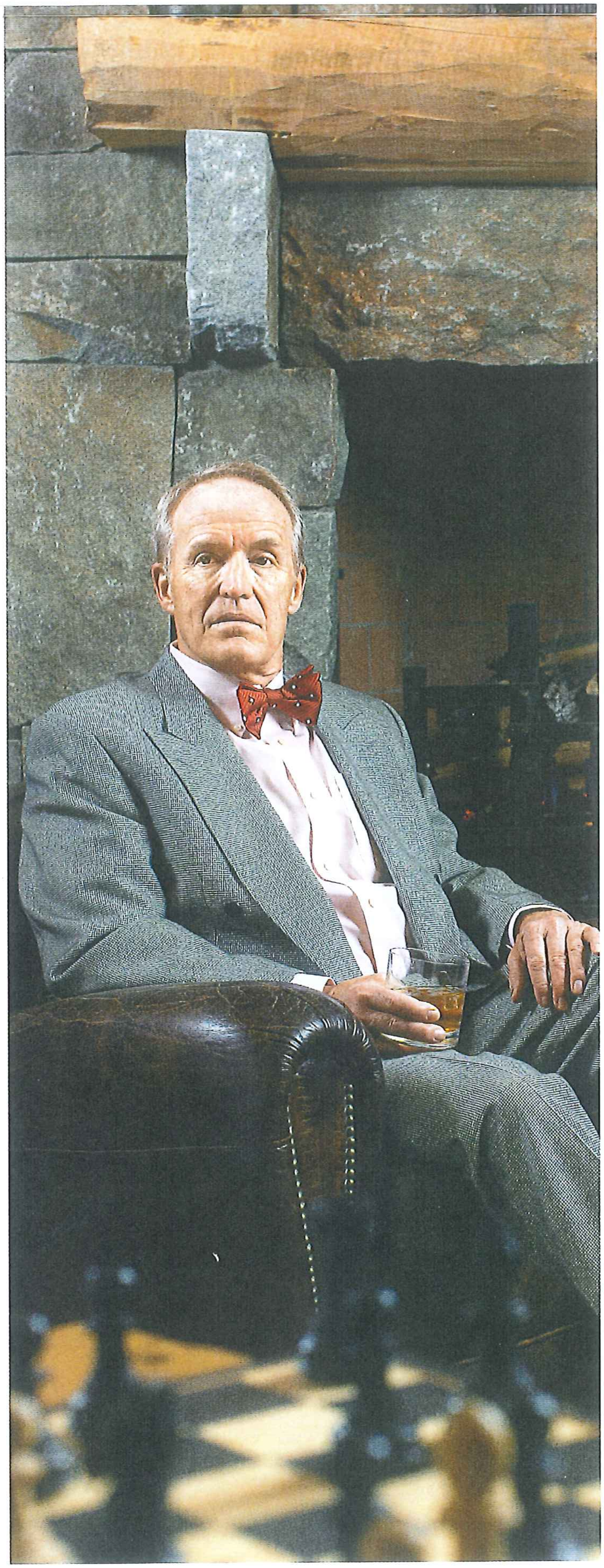
LIFE AS A "WEALTH STRATEGIST" can seem pretty comfortable these days. Tom Rogerson, for one, makes a nice living, working half the month from his Boston-area home office. The other half, the senior Wilmington Trust executive might find himself hopscotching between exclusive zip codes, meeting with affluent families at their Palm Beach mansions, Wyoming ranches and other private retreats. Or he might be holding sway at swanky hotels, presenting his wealth-preservation strategies to a roomful of potential clients.

But there's a cruel irony to Rogerson's job: He shouldn't have to do it. After all, his family has made fortunes as vast as any of his clients. Take his great-grandfather, Charles Rogerson, a New England banking titan who, during the first decades of the 20th century, built Boston Safe Deposit and Trust into one of Beantown's largest financial institutions. Charles's brother, a Harvard-educated estate lawyer, did his part to lock down the family's legacy for generations by fashioning tax-protected trusts.

But then came Tom's father, who found success for decades as a real-estate developer. The problem was, he also developed some expensive hobbies not uncommon among banking scions. "I grew up thinking it was normal to fly to summer camp in your father's amphibious plane," says Rogerson, who vividly recalls how his dad's passions for yachting and flying led to a personal fleet of a dozen boats and small aircraft. Those purchases began to shrink the family pot, but the bottom really fell out, he says, after a massive real-estate project in the mid-80s collapsed.

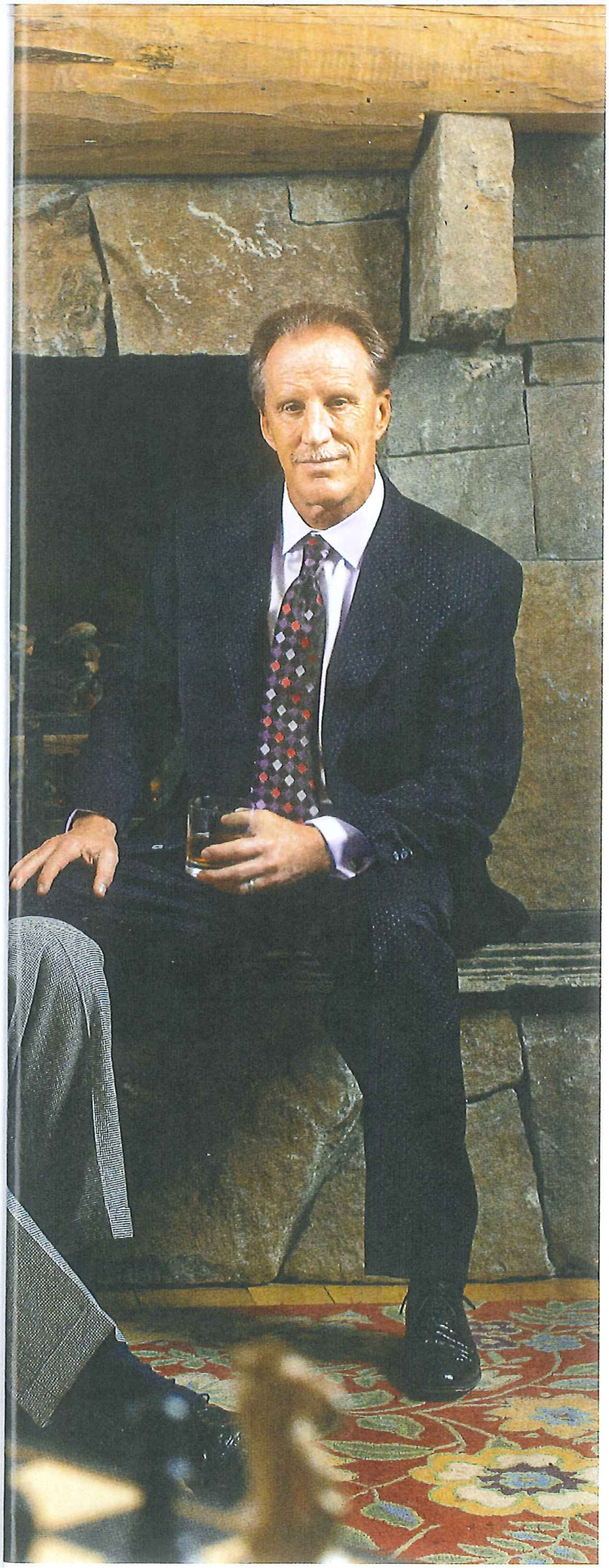
In the end, Rogerson's father was forced to sell off the family's belongings in a liquidation auction—the death knell for an inheritance that might have made him a man of leisure. These days, you can find the boyish, bow-tied 57-year-old maintaining a heavy travel schedule—flying mostly coach—trying to help other wealthy families skirt the mistakes made by his own accomplished, but less-than-communicative clan: "We didn't talk about money or even get together as a family," says Rogerson of his Boston Brahmin relations. "Now there's nothing left."

If things had gone differently, Rogerson could have been enjoying his share of one of the greatest wealth transfers in U.S. history. According to the Boston College Center for Retirement Research, two-thirds of baby boomers will inherit family money over their lifetime—most during their later middle-age years—to the collective tune of some $7.6 tril-



HARDIES PHOTOGRAPHED AT MARTIS CAMP

PHOTOGRAPH BY ANNIE TRITT



BROTHERS DAVID, LEFT, AND STEVEN HARDIE ARE TRYING TO PRESERVE THE FAMILY'S $350 MILLION WEALTH. "THE QUESTION IS, CAN WE BE LIKE THE ROCKEFELLERS AND THE ROTHSCHILDS AND PERPETUATE THE WEALTH?" SAYS DAVID.

lion. Add in the many postwar babies who receive a significant financial gift or two from Mom and Dad while the latter are still alive, and the asset shift jumps even more. Not bad, experts say, considering that Americans' total household wealth at the end of 2012 was $64.8 trillion. "There's a lot on the line," says John Davis, faculty chair of the Families in Business program at Harvard Business School.

But if the past is any prelude, inheritors, especially those who are new to the family-windfall phenomenon, face an unpleasant reality: They're likely to blow it. Although it's not widely discussed, financial advisers say that new riches

RESEARCH HAS FOUND 90 PERCENT OF INHERITANCE IS OFTEN DEPLETED BY THE THIRD GENERATION.

prove particularly hard to hold onto—and even harder to patiently nurture and grow. Indeed, research shows that family money rarely survives the transfer for long, with 70 percent evaporated by the end of the second generation. By the end of the third? Ninety percent. Hence the old saw, "Shirtsleeves to shirtsleeves in three generations."

The most obvious reason, of course, is that money gets spread thinly over fast-growing family trees. But wealth managers also say many people are simply inexperienced at handling large piles of dough in any disciplined way—think of the so-called sudden-wealth syndrome experienced by lottery winners and many professional athletes. Another common trend advisers see? A belief among some inheritors that, hey, it's permanent vacation time, and there's no need to create any new income streams. "There's a mentality that something will come from somewhere," says Stacy Allred, director of the wealth structuring group at Merrill Lynch Private Banking and Investment Group, which has $130 billion under management.

Of course, that's fairly dangerous thinking, especially now. Congress didn't play too much with the estate-tax laws it had last year. But with interest rates so low, the stock market seesawing, and that vacation house at the shore not quite the resell it used to be, advisers warn that today's inheritors face a far more daunting task than their parents did to maintain their financial footing. Indeed, some say the great irony of today's massive wealth transfer is the lousy timing.

All of which leaves a lot of estate planners and investment pros trying to teach clients how to break the cycle of lost inheritance—a task they say is neither easy nor impossible. For many, it's a matter of making sure future family members aren't left asking: Where did it all go?

YOU WOULD THINK $350 million would be more than enough of an inheritance to relax on. But not for Nevada residents David Hardie and his brother Steven, who have started Hallador Investment Advisors, a company with the sole mission to protect and defend the interest of the family's legacy that came by way of an inheritance and a messy buyout of a media giant their grandfather created. "The question is, can we be like the Rockefellers and the Rothschilds and perpetuate the wealth for multiple generations?" says David, 62, who has two children. Steven, 58, has two children and two stepchildren.

The brothers think they have a good shot at keeping it going into the 22nd century. They are carefully investing in a wide range of assets and markets, which they won't disclose. But they argue one key is getting the kids as involved as possible in some of the decisions, and spending some money on consultants and wealth managers to train and advise family members on proper saving and spending. The brothers call this the "business of the family," and they are hoping it avoids lawyer fees down the road over family squabbles about shrinking inheritances. "We've seen it come apart," says Steven of his family's hold over their company. "Family businesses don't fail because they're not good businesses, but because there's some kind of infighting."

Researchers at the Williams Group, a family-wealth consultancy based in San Clemente, Calif., surveyed more than 2,000 affluent clans over 20 years, searching for an explanation to the boom-and-bust syndrome among families. High taxes and poor investment advice were not the biggest factors; the study found that 60 percent of the time a trust and communication breakdown among family members played the biggest role. It's not hard to imagine squabbling siblings, mired in childhood resentments and rivalries, who can't agree on a schedule for the family beach house, much less how to manage Dad's business or which charities should benefit from the family's philanthropy. Helping to build trust among grown siblings or cousins, says Vic Preisser, managing director of the Williams Group, can be especially tough when they can only communicate about shallow things or aren't speaking to each other at all. "Wealth is a magnifier," he says. "If you have problems, it will magnify them."

The same study reports that another 25 percent of the time, the banana peel turned out to be the families' failure to prepare heirs for their pending prosperity. If Dad and Mom are busy building a successful business, experts say, they may not spend much time on the finer points of parenting. And if they're busy jet-setting, power shopping, or writing the next great American rock opera, they may not be the best role models for budgeting or investing. What's more, many heirs are kept deliberately in the dark about their financial good fortune until the day Mom and Dad drop the trust-fund bomb and shove a stack of legal papers in front of them to sign. According to a 2012 study by U.S. Trust, more than half of high-net-worth boomer parents had not fully disclosed their wealth to their offspring, while another 13 percent kept completely mum. Jamie Johnson, an heir to the Johnson & Johnson health-care fortune, says in his documentary "Born Rich" that he was clueless about the extent of his family's wealth until a young schoolmate read his father's listing in the Forbes 400—aloud to the entire class.

A MAJOR ISSUE: PARENTS NOT PREPARING CHILDREN FOR COMING WINDFALLS.

Of course, keeping family-money talk on the down-low is understandable, some say, since many parents fear that if they spill the beans to their kids too soon, they risk creating a brood of spoiled layabouts. But Jim Grubman, a veteran family-wealth counselor based in Turner Falls, Mass., says such discretion often backfires. In his experience, no timeframe for disclosure works unless the children have been given some ongoing messages about money and how to deal with it. An unprepared inheritor's reaction to the news, he says, can range from doe-in-the-headlights paralysis to uncontrolled spending benders—not to mention longer-term ills, such as isolation, addiction and depression. "There are so many horror stories," he says.

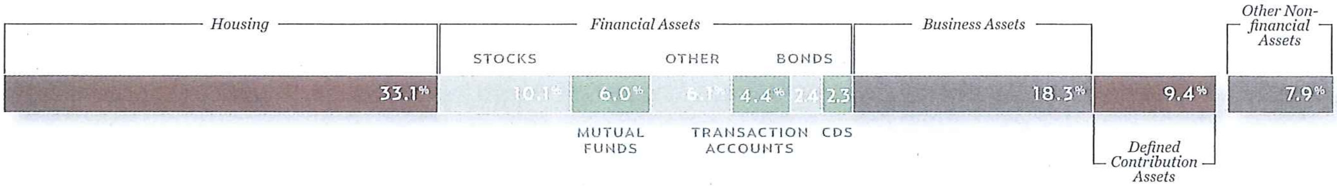
NATURALLY, FAMILIES WHO have lost it all already, or are heading that way, don't have to blame themselves if they don't want to. There's a deep pool of candidates they might choose from, from all those tax-raisers in City Hall and Washington to all those would-be friends in the wealth-management sector. And for some clients, citing high fees and sloppy advice, "management" is something of a misnomer.

Standish Smith, 81, and his wife, Joan, are among the unhappy. The Villanova, Pa., couple inherited a tidy sum in the 1970s that has grown almost fivefold since. But Smith, founder of Heirs Inc., an organization dedicated to reforming trust and estate laws, says he's frustrated that his family's trust is far too conservatively invested, despite fees it pays for active portfolio management. This, he says, has caused

INHERITANCE BY THE NUMBERS

TOTAL PORTFOLIO

HERE'S WHAT'S IN THE PORTFOLIOS OF HOUSEHOLDS AGED 65 AND OVER:



HOW MUCH BOOMERS ARE EXPECTED TO INHERIT OVER THEIR LIFETIMES

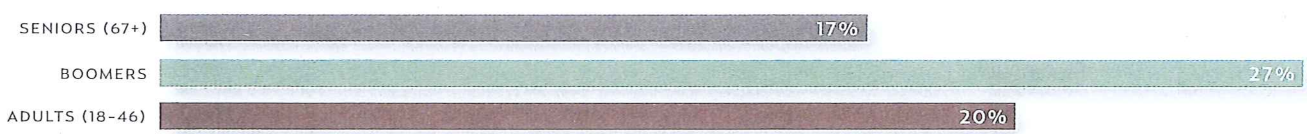
$7.6 TRILLION

ANNUAL GDP OF CHINA

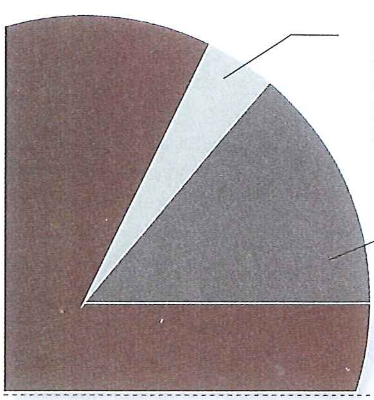
$7.3 TRILLION

FOR EVERY $1 INHERITED BY YOUNG BABY BOOMERS, ROUGHLY

AGREE THAT TAXES ARE A KEY REASON TO LEAVE AN INHERITANCE



WHO OWES WHOM

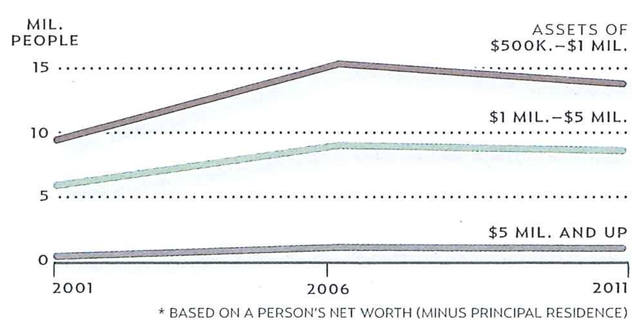


4%
BOOMERS WHO FEEL THEY'RE 'OWED' AN INHERITANCE FROM ELDERS

14%
ELDERS WHO FEEL THEY OWE THEIR CHILDREN AN INHERITANCE

CHANGING NUMBER OF MILLIONAIRES

Investable assets*



* BASED ON A PERSON'S NET WORTH (MINUS PRINCIPAL RESIDENCE)

SOURCES: BOSTON COLLEGE CENTER FOR RETIREMENT RESEARCH (2007, 2010), WORLD BANK (2011), ALLIANZ LIFE INSURANCE, U.S. TRUST, SPECTREM GROUP, JOURNAL OF FAMILY AND ECONOMIC ISSUES

AFTER WATCHING HIS FAMILY SPEND MUCH OF ITS LEGACY, TOM ROGERSON IS NOW TRYING TO KEEP HIS AFFLUENT CLIENTS AT WILMINGTON TRUST FROM SUFFERING THE SAME FATE.

the account to lag comparable index funds for a decade. And he thinks the fact that many trusts don't allow beneficiaries the right to dictate investment choices—or fire a bank and take their business elsewhere—results in subpar service.

Smith says it recently took four months of phone calls to get a written response from a new trustee on something her predecessor had already approved. "You feel like you're dealing with a stone wall," he says. (Smith's trustee bank, BNY Mellon, says it doesn't discuss individual clients, but says it has a 92 percent client-satisfaction rate.)

But by the industry's own reckoning, wealth retainers aren't doing the snappiest job, especially when it comes to managing mere seven-figure fortunes. A 2011 survey of the private-banking industry by research firm PriceWaterhouseCoopers found that almost 40 percent of firms rated their own frontline relationship managers as "average" or "below average" in their ability to meet clients' needs, up from 26 percent in 2009. According to the study, customers with assets between $500,000 and $5 million generally share an adviser's attention with more than 200 other clients and often have their queries routed to a call center. "Whether it's by accident or by design, many people are getting poor service," says Peter Damisch, a partner at Boston Consulting Group in Zurich and co-author of its annual study of the wealth-management industry.

PHOTOGRAPH BY ADAM GOLFER

Wealth advisers say they're committed to customer service, even amid postcrash challenges ranging from mergers between huge commercial banks and boutique trust companies to boatloads of new regulatory paperwork. Call centers, institutions say, are simply more efficient ways to address routine service requests from lower-echelon account holders while freeing up advisers to focus on the complex needs of bigger fish. For his part, Keith Banks, president of U.S. Trust, says his wealth-management team provides high-touch, personal service to every customer, whether they bring $3 million or $3 billion in assets. No call center here, he says: "If you're my client, you have my cellphone number."

Still, most firms in this sector concede they'd like to help big-fish clients more, especially with those unprepared heirs—half of whom, research shows, ditch their parents' financial advisers and take their money elsewhere. Not only are banks and advisories hosting "bootcamps" and launching websites to teach future beneficiaries money basics, but many are venturing into a decidedly more touchy-feely arena. Clients may be surprised to have their money guy diplomatically suggest a few sit-downs with a wealth psychologist—a few banks even have them on staff—to help sort through the complex emotions surrounding affluence. (Care to share your family history of money messages?) And "family dynamics" coaches have joined more wealth-management teams, promising to help clans with those pesky trust and communication problems. For fees that can range up to $10,000 a day, a coach-facilitated event might subject extended families to personality tests and team-building exercises torn straight from the corporate-retreat playbook. (Yes, some involve blindfolds.) The goal? To help dissolve long-standing negative family labels while identifying shared values and hidden talents.

Which brings us back to banking scion Tom Rogerson, who heads the family-dynamics efforts at Wilmington Trust, which sometimes puts him at educational events for investors, trolling for new business. At one exclusive breakfast, he stood before a rapt audience of 40-some inheritors, discussing his own family fortune ("it's gone") and outlining ways to break the money curse. Heads nodded as he regaled the room with another personal anecdote—how he and his wife empower their kids to team together and invest a few thousand dollars each year to fund their annual family vacation. By the time he got to the part about his daughters planning a trip back to the Russian orphanage from which they were adopted, the room sighed with a collective "awww."

It was, of course, a soft sell from the man whose family once had it all. And the presentation, he says later, went well and led to a handful of business inquiries by families. For them, the mission—to avoid that all-too-common fate—had begun. —NEIL PARMAR *contributed to this article.*

BIG MONEY GONE POOF!

If history is any indication, most inherited fortunes tend to evaporate within a few generations. Here are a few of the more famous mega-wads gone down the tubes:

THE VANDERBILTS

WHERE THE $ CAME FROM:
SHIPPING AND RAILROADS

"Commodore" Cornelius Vanderbilt (1794-1877) amassed more than $100 billion (in today's dollars). His early heirs went hog-wild building baronial estates like The Biltmore, a 250-room French-style chateau in North Carolina. But by 1973, according to one biographer, a reunion of 120 Vanderbilt descendants included not a single millionaire.

HUNTINGTON HARTFORD II

WHERE THE $ CAME FROM:
A&P

Blowing through hundreds of millions, this grocery heir died at 97. Among his lost "investments": a self-named Manhattan art museum ($7.4 million), a 145-acre California artist colony, and a Bahamian resort development complete with an imported medieval cloister and gold-plated bathroom fixtures (estimate: $20 to $30 million).

BARBARA WOOLWORTH HUTTON

WHERE THE $ CAME FROM:
FIVE-AND-DIME STORES

The casual philanthropist and so-called "poor little rich girl" blew through as much as half a billion (in today's dollars), splurging on art, jewelry (including historic pieces once belonging to Marie Antoinette) and seven husbands. She died nearly broke, with a reported net worth of just $3,500.

PHOTOGRAPHS (L-R, GETTY IMAGES) HULTON ARCHIVE; RON GALELLA; KEYSTONE