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# MACIAN

## WEALTH MANAGEMENT



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## Family Governance

**Dear matthew,**

With the holiday season upon us once again, I think it is the perfect time to dig in and see how much we can get accomplished before year's end. We are looking forward to a fun and warming holiday time and would like to get together with you if you can find some time to have a chat. Follow up with one of us; we're here for you!

### Newsletter - October 2011

Many years back, I remember an odd scenario that emerged in my mind. As I was traveling to the Caribbean, something had occurred to me, "What will my family be like after I am gone? Will they carry on in the same fashion; working, growing, living the same as now, or will things change? If they change, will it be for the better? Will they know how I have been building my company, developing their trusts, even managing their daily finances?" The more I began to think, the more I began to realize that I needed to find answers to my questions. While I may be a rare breed, I'd like to believe that I'm not the only one who will sleep better at night knowing my best interest is in line with my family's...and vice versa.

For those of you who own and operate your own businesses, today's pace could not be any faster. Issues ranging from hiring, to marketing, school tuition to buying a first car all take time and resource. Exposing your family to the process behind how these decisions are made can be a great initiation into how their financial lives have been so carefully constructed. One of the worst things we see happening today is the lack of information which



flows through to the remaining family members. Here at Macian we understand the shortfall of knowledge and readiness for family succession, especially for those who own a business or entity of value which will outlive its creator.

So how does one go about developing a system which will help guide and direct newly appointed members and freshly accustomed family to the roles of responsibility and governance? When every family is extremely different, how can these systems be applied so as not to disrupt current order and fashion? We look at our family clients with a business mind. Knowing that a family in Europe will function different than a family here in the states, we understand the need for top down evaluation and fresh thinking; which just so happens to be the first step in creating a family governance system.

### **Why Even Create a Family Governance System?**

Admit or not, there will come a point where family members will disagree with each other and have conflicts arise. As wealth grows within a family, these conflicts also seem to intensify. To help prevent or minimize the disruption and hostility which can develop from these intra-family conflicts, the first step is in the creation of an effective family governance system.

In a recent article in the Wealth Strategy Journal, it stated that:

*"Statistics and proverbs both confirm the difficulty of preventing the loss of family wealth across several generations. The accepted statistics are grim: less than ten percent of family-owned businesses survive to the third generation. As the Economist put it: "Few family businesses manage to survive beyond the third generation. A failure to develop the founder's business, together with disputes over dividing up the spoils, usually does in most family firms. "The parallel proverb for large family wealth is "shirtsleeves to shirtsleeves in three generations." The general issue seems to be how to motivate a generation that has grown up in a wealthy household. Numerous programs exist on "next generation" training. This is a global issue. The Chairman of Almoayyed & Sons (Bahrain) said "I think it's very difficult to motivate the third generation...I would say about 50% are not really motivated. This is basically the problem we have and I don't know what the solutions are."*

With that said, what causes families to lose motivation and diminish wealth past the third generation? We believe the two major driving forces behind this trend are,

- 1) Families are too often trying to GIVE their children the lives they have worked so hard to build rather than TRAINING them to repeat their process and,
- 2) Families are not outlining guidelines of responsibility and expectancy.

Here are a few examples:

- Families link money with affection or approval. (#1)
- Children / heirs are given endless opportunities without having to achieve personal success (#1)
- Family member passes and child inherits a large sum of money with no idea how to "spend" it (#2)
- Parent gets sick, fighting over money and how health matters should be tended to (#2)

This list can go on for weeks, however we believe that a common cure to this elicit infection is a simple, detailed, properly crafted governance system which will cover the roles and responsibilities of each family member which is to be involved. This not only provides a clear picture of how both family and company can coexist, but provides personal accomplishment in the achievement of individual responsibility. Although this cannot cure all conflict, it can help when inheritance is dissected among the members, as each will have a clear picture of "what goes to whom." May sound like a small issue, but please never underestimate its power to

divide.

Traditionally solutions include increasingly sophisticated legal documents. Attorneys can develop elaborate Dynasty Trusts, incentive trusts, asset protection trusts, and family wealth preservation trusts along with more simple living wills/trusts and revocable / irrevocable trusts. Although these are necessary documents and practices to have in place, we have found that layering a family governance policy on top can help the members understand how to LIVE and FUNCTION, rather than simply know what "goes to whom." A major policy we emphasize is systematic communication where the family meets and discusses a specific agenda surrounding monetary issues, family happenings and other business matters not easily discussed at a typical gathering (i.e. dinner, golf, etc.)

### **What is a Family Governance System?**

A Family Governance System is purely a written document which outlays the allocation of power and responsibility within the family and its advisors. It is also system where families make decisions together. These governance policies widely vary depending as to how each individual family functions and desires to grow in the future. Every culture has its practice, as does every family, so as the development of the policy is created it is crucial that it is crafted in a fashion which is in direct parallel with the family's specific style.

In discussing a family governance system we must address not only the nature of "governance" as above, we also need to address the definition of "family". Who exactly is considered family? It turns out that this initial question, which in many ways one of the most serious and lasting questions, is the question of which individuals should be included in the family, for family governance purposes? Should the "family" solely include the natural parents and their adult children? Even under this simple pretense, the process becomes complex if there are multiple wives. If there are multiple divorces, the selection is also complex. A very sensitive question is the inclusion of spouses of the adult children. Next is usually the question of the minimum age of a child for inclusion. Every family will have a different view on this topic, none of which are incorrect or wrong! Everyone sees this differently.

Having addressed, albeit briefly, the words "governance" and "family" we need to consider the broader concept of a "system" of family governance. A family governance system refers to the method by which a family makes decisions (the way in which the group's power has been allocated). As John Ward, author of several treatises on family business continuation, used to mention, any way in which a family does make decisions is that family's governance system, even if it is that they will toss a coin for any decision. The point is that all families already have a family governance system; even a system in which the patriarch makes every decision is a family governance system. The question is whether or not the existing family governance system is "effective." That means "effective" in accomplishing what goal?

At Macian, we are focused on the goal of emphasizing family continuity, family harmony and family wealth--across the generations and against the odds. Every family should create some form of family governance if they are serious about creating a lasting legacy or even just pass on their wealth to their children and having them understand the importance and true worth of money.

## Upcoming Events

### Summer/Fall Classes begin Monday!

Every **Monday** through December 12th 2011  
6:30pm - 8:30pm

929 Second Street  
Brentwood CA 94513  
Adult Education: (925) 634-2565



Beginning this Summer, Jadine will be teaching a series of financial courses in Brentwood through the Adult Education Center. Join us as we explore the many facets of personal and family finance. For more information about the course and how to register, visit [Liberty Adult Education](#).

## Thank you

Thank you for your continued interest in Macian. We truly enjoy reaching out to you and sharing our world with you every month and look forward to many years of sharing together as we all grow. If you have a loved one or a friend who you feel may benefit from a simple conversation with us, the biggest compliment we can get are your referrals. Enjoy the rest of the month and we look forward to chatting with you soon.

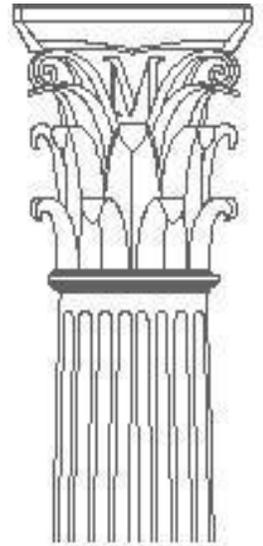
Sincerely,

A handwritten signature in black ink, appearing to read "Matthew Hodgen".

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A handwritten signature in black ink, appearing to read "Jadine".



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