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# Keeping the wealth all in the family

**Michael Nairne, Serious Money**

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THE HIGH-PROFILE FAMILY BEHIND POWER CORP. OF CANADA: Paul Desmarais and sons Paul Desmarais Jr. and Andre Desmarais. They are an example of a house where wealth has survived and thrived.

Some people win the "gene lottery" and inherit their wealth. A handful of mega-earners such as top athletes and entertainers save their way to wealth. The source of most family wealth, however, is a successful business. The concentrated ownership of risky business assets is usually the route to serious money; diversification comes later.

This is not an easy path to affluence as most new businesses fail. Hence, most wealthy people are survivors in an intensely competitive capitalist struggle. In fact, many millionaires cite hard work and tenacity as the reasons for their success. Of course, good fortune has a role. Being in the right place at the right time is often the difference between winning and losing.

Except for a few wunderkinds, this struggle for survival is a marathon measured in decades not years. In a discussion I had with a Forbes 400 billionaire, he said: "I don't know much about investments; I just know a lot about my own company's stock and it has averaged a 20% annual growth over the past 40 years."

Time is the fulcrum that magnifies wealth creation when capital compounds at a high, tax-deferred rate over many business cycles. But the return reflects the concentration risk. This individual nearly lost his empire in the recession of the early '90s.

There comes a point where concentrated business ownership can become a burden and not a blessing. The aging or death of the original entrepreneur is often a cause. Sometimes, the business needs access to capital for growth and the ceding of control precipitates an assessment of priorities. Other times, a hard-headed appraisal of declining opportunity is the catalyst.

Regardless, the transition from concentrated ownership to diversification must be executed successfully if the family wealth is to survive. In essence, this entails moving capital from a single investment to a broader asset mix and it involves three critical elements: an exit strategy, a tax avoidance plan and a wealth management strategy.

The key to a successful exit strategy is to get the timing right by selling the business when it is prospering. Leaving a business sale to lean economic times can cut the price in half or more. A detailed exit plan supported by the right professionals is also critical to ensuring that a maximum price is achieved.

Planning on the tax side should begin many years, if not decades, in advance since the early transfer of taxable asset growth to the next generation is one of the pivotal elements in family wealth preservation. Estate freezes, often involving the use of family trusts, are vital tools in this regard. Where the concentrated wealth is public company shares, monetization and other strategies are available. Philanthropic considerations need to be covered off as well.

Although many families undertake exit and tax planning, few develop a co-ordinated and thorough wealth-management strategy. Often, once the sale proceeds show up, there is a hasty scramble for investment managers that results in needless costs, taxes and risk. Instead, a proper, long-term wealth management plan needs to be prepared in advance. Goals need to be carefully clarified while cash flows are forecast.

Risk parameters and return expectations have to be set and a comprehensive monitoring process put in place. Only then can investment managers be hired. Families that want to see their wealth survive and thrive need to undertake this planning.

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