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BEST PRACTICES OF FAMILY OFFICES - AND WHY YOU SHOULD CARE

Top family offices tend to employ five key best practices—and increasingly, top wealth managers are adopting them, too. Discover how you can look for professionals who seek to provide a family office-like experience.

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Best Practices of Family Offices—and Why You Should Care

KEY TAKEAWAYS

- A focus on results—not the solutions to get the results—is important.
- Top professionals focus on their best skills and outsource the rest.
- Connecting with others and building productive relationships can produce superior outcomes.

Family offices are designed with the goal of serving wealthy families extremely well and helping them get what they want in various areas of their lives—from growing and protecting wealth to accessing top experts to address matters related to their business, personal and even social lives.

That's why, in general, family offices are seen as the peak form of wealth management and lifestyle management.

Nowhere is that better observed than in the single-family office—a type of formal, legal entity that one extremely wealthy family sets up to manage its own financial and personal affairs, and no one else's. Single-family offices vary from each other in many ways—such as the number of people they employ, the number of family generations involved in them, and the specific services they deliver. But all have one common characteristic: They exist to address the needs, wishes and preferences of a single family unit using the highest-level talent and expertise that the family can access.

The good news: Wealth managers are increasingly seeing the value of family offices and bringing aspects of family offices into their own practices using a ***virtual family office*** model. As a result, it's now possible to work with wealth managers and other financial professionals who can deliver a family office-like experience—even if your last name isn't Gates, Musk or Walton.

Five key traits to look for

With that in mind, we examined some of the key best practices we see among top family offices. You can use these best practices as guidelines when evaluating the financial professionals you work with now—or ones you may consider working with in the future—to determine whether they possess some of the traits that are common among high-performing family offices.

1. **Results driven.** There are clear goals and objectives. This regularly takes the form of setting quite high expectations and ensuring accountability. Any changes to desired results are made proactively and deliberately.
2. **Thoughtful decision-making.** In high-functioning single-family offices, the ultra-wealthy families and senior management are proficient at decision-making that takes into account diverse priorities.
3. **Strategically outsourcing.** The ultra-wealthy and their advisors know there are very few things they do well and what role these skills and expertise play in being successful. Thus, they stick to those deliverables where they are exceptional and skillfully manage external experts.
4. **Purposefully connecting.** The ultra-wealthy and their advisors have extensive and very useful personal and professional networks that they generate great value from. High-functioning single-family offices are replete with expert networkers.
5. **Maximizing relationships.** Being able to forcefully capitalize on the wealth, stature and connections of the ultra-wealthy family, as well as the relationships of the senior executives, is characteristic of high-functioning single-family offices. Negotiating prowess is essential.

These five behavioral best practices are exceedingly potent and foundational to getting a virtual family office experience from a wealth manager. Let's examine each one more closely.

Results driven

Top family offices make a concerted effort to turn talk into action and get results—outcomes that reflect the various goals and preferences that may get written down in documents like investment policy statements and family mission statements.

That means your advisors should be thinking and communicating with you in terms of measurable goals—expectations and standards—that need to be achieved, not in terms of products and vehicles to get you there. This makes perfect sense if you think about it: Chances are, you don't walk into an advisor's office and ask for a specific type of trust or annuity, for example—you explain the result you want to come away with. But too often, advisors may focus their attention and their conversations on products and acronyms of financial strategies—assuming that you will be impressed or understand the value of what they're talking about.

In short, to be capable of delivering a family office-like experience, advisors need to "begin at the end" with a clear understanding of your desired outcomes. Armed with this information, they can work backward to identify one or more potential solutions that are highly in sync with their deep understanding of the results you most want.

So ask yourself how well an advisor knows you or seeks to know you and the outcomes you truly care about.

Thoughtful decision-making

If you and your family are involved together in wealth planning—as is the case in family offices and would likely be the case if you're seeking a family office-like experience—it's reasonable to expect disagreements, challenges and even conflicts of some type.

So there needs to be a calculated approach to decision-making. It is very important that you—and your advisors—are able to step back and appraise situations nonjudgmentally to derive a workable solution.

This is not an easy task. The emotional connections with family members can override the best financial and strategic business choices. What really matters is that you understand how your values impact your decision-making and your ability to make deliberate money-related decisions. The following equation puts thoughtful decision-making into perspective:

Personal values + calculated economics = thoughtful decision-making

Your values must be given high priority when you are making family wealth decisions. If your family is extremely focused on environmentally friendly choices and policies, the results should reflect that. That said, values don't exist in a vacuum. The economics of a potential decision must also be factored in and examined carefully. In nearly all business situations, successful people evaluate the financial and strategic value of possibilities. Similarly, a very common practice at high-functioning single-family offices is "running the numbers." That may involve looking at various possible scenarios and assumptions—rather than focusing only on the best-case scenario or only on "the upside"—and coolly assessing them in terms of their probability of occurring.

Ask yourself how well your advisors do at bringing both values and the cold, hard numbers into the decision-making process, and how you work together (if needed) to strike the right balance.

Strategically outsourcing

All high-functioning family offices we see turn to external experts to some degree. They deliver what they do extremely well and then source and oversee external experts for those services they are less capable—not necessarily incapable, just less capable—of providing themselves. This helps the families pursue the best possible results—and very often allows them to get those results quicker and more cost-effectively than they would if they tried to do everything themselves.

The message is clear: If you want a family office-like experience, it's likely necessary to work with advisors who do what they do best and then outsource other areas that are important to you in order to get the desired results.

What, exactly, advisors outsource should depend on each advisor's area(s) of expertise and the needs of the families they serve. It might be seeking outside expertise in select areas of the investment world, or it might involve partnering with other professionals to get access to better health care and physician resources. It can run the gamut. But the prevailing view is that if a strategic outsource provider—an external expert—can provide a deliverable at a higher level of quality and excellence at a reasonable price than can be provided in-house, and provide it without conflict and with transparency, it makes sense to strongly consider that alternative in order to best serve a family's needs and objectives.

Advisors you work with should be able to explain clearly what they outsource and why, and establish the reasons why they chose a particular third party for help. In addition, they should ensure you understand how they monitor and "keep tabs on" their outsource partners over time in order to assess whether their experts remain the "right" experts for you.

Purposefully connecting

Your net worth may be highly impacted by your network—the people you know (and the people that "your people" know) who wield influence and have resources.

We find, with unerring consistency, that when senior management of a single-family office focuses intensively on their array of relationships and are able to also take advantage of the relationships of the ultra-wealthy family, they usually find a treasure trove of valuable opportunities translating into significantly more success.

Likewise, we find that a growing number of wealth managers are recognizing their ability to reach out and learn from each other and do business together on behalf of their clients. This situation will only become more mainstream going forward.

Consider whether advisors you work with are adept at connecting with others who can improve your results—or even potentially connect you with people who could be beneficial to you in some important way (financially, socially and so on).

Maximizing relationships

Maximizing relationships is all about ensuring you can get a close-to-optimal arrangement with others such as external experts and organizations your advisors do business with and have agreements with. Most commonly, the issue is one of cost of deliverables—getting the best pricing you can. However, sometimes the *terms* of an agreement can be more important to you.

Family offices tend to have some advantages in this regard over other types of advisory firms. For one, the sheer amount of assets of the family may give them tremendous leverage to dictate terms, fees and other conditions of an agreement. Additionally, the people that an ultra-wealthy family hires to help run a single-family office may have tremendous industry experience and know how to play all the angles when it comes to getting others to reduce their fees or enhance deal terms.

That said, adept advisors and wealth managers will often be skilled at learning the needs of outside experts and other parties they want to work with, and using that information to negotiate better outcomes on behalf of clients. For example, investment management fees, legal fees, accounting fees and so on are negotiable. Advisors who are cognizant of the expenses incurred by external experts in providing a service or product know those experts' profitability and margins. Advisors may then skillfully use this information to reduce external experts' fees and still permit them to make a reasonable profit.

Conclusion

You may not be able to start your own single-family office—at least, not yet. But you can work with professionals who both understand the best practices employed by top family offices and who implement some or all of those best practices via a virtual family office model. Such professionals can potentially put you on a better, smoother track to getting the results you want for yourself and your family.

VFO Inner Circle Special Report
By John J. Bowen Jr.

Unless otherwise noted, the source for all data cited regarding financial advisors in this report is CEG Worldwide, LLC. The source for all data cited regarding business owners and other professionals is AES Nation, LLC.

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