

[Home](#)

[Our Process](#)

[About Us](#)

[Services](#)

[Contact Us](#)

2011 TOP 20
under twenty
Small Business Monthly

Recent News Articles

[A Tale of Two Families](#)

[My Breakfast With a Cynic](#)

[The Value of an Introduction](#)

[A Bull in a Bear Hive](#)

[Behavioral Science 101](#)

[15 Tips for 15 Years](#)

[On the Upside](#)

[Newsletter Archives](#)



current newsletters

A Tale of Two Families

Aug 2, 2016

"Above all, we have realized how courageous we have to be to embark on a family journey that will extend beyond our own lifetimes and thus be a journey whose outcome we will never know. To begin a voyage knowing we will not see its end is a leap of faith of extraordinary proportions. Yet not to try is to accept the verdict of the [shirtsleeves to shirtsleeves in three generations] proverb and consign our families to fulfilling its hopeless prophecy."

– James E. Hughes Jr.
"Family Wealth – Keeping It in the Family"

"A society grows great when old men plant trees in whose shade they know they shall never sit."

– Greek proverb

Confession: I had a different topic teed up for this month, but some conversations over the past few weeks have brought me back to something I had addressed in "Where Will Your Business Be in 100 Years?"

A few of our client families are attempting to put a vision to the idea of family wealth – wealth that comes in various forms and can have a positive, even profound, impact on generations they will never meet.

Our thinking on this has evolved a bit since I last wrote on this topic. Though the business is the engine that typically powers the first generation and possibly even the second or third, the business is not necessarily what needs our focus.

We really need to begin by tackling the idea of seven-generation sustenance. Consider that you could have an impact on the lives of your great-great-great-great-great-grandchildren. If you are like most business owners, you have experienced so many unpredicted changes in your lifetime that it seems impossible, if not futile, to put something in place that will survive to that seventh generation.

To give you some motivation, let's consider the alternative: What if you do nothing?

If you are the first generation to build the wealth, you have an intimate knowledge of the blood, sweat, tears, unpredicted risk and sleepless nights that have gone into creating

what, to others, appears to be a winning of life's lottery.

Your children were there with a ringside seat to watch you rise each morning with grit and determination to take on the battle again and again. Though they didn't share your bloody and weary experiences, they witnessed the origin of your scars; they value the cost; they are inspired by the triumph. Even with this perspective, there is a chance they might squander what you have created, but it is more likely that echoes of your life will encourage them to preserve it after you are gone. Wealth survives one generation.

Now for your grandchildren ... They enter your life at a time when your battle has been won. You are no longer the pugilist in the ring but are the successful grandparent with time and finances freely available. They listen to the stories their parents share about the struggles you endured, but they are challenged to reconcile that person in the story with the one in front of them that delights in eating ice cream and taking trips to the zoo. It is possible, though increasingly improbable, that this generation will appreciate what went into building the family wealth and will therefore feel an obligation to preserve it, especially when they enter the arena themselves and are faced with the challenges of life. At this point, the financial capital that was mostly kept intact by your children becomes an accessible salve to dress your grandchildren's wounds, calm their fears, give them a life beyond what they perceive they can achieve on their own. It becomes a dependency. Over their lifetimes, much of what you created will be consumed, leaving little to nothing for your grandchildren's children. The wealth that was an outgrowth of your life's work and experiences is but a memory.

For a real-world example of this, let's consider the Vanderbilt family. The surname lives on through an institution in Nashville, Tennessee, to which Cornelius Vanderbilt gifted \$1,000,000 to fund an endowment. You may see a street or two named after him, but beyond that, there is nothing left of the fortune that once was.

How did this happen? The family fortune followed a generational cycle much like the one I described above, though due to the enormity of the Vanderbilt wealth, the money managed to carry forward to the fourth and fifth generations before evaporating.

In 1810 Cornelius Vanderbilt started his company with \$100, which he borrowed from his mother to pilot a ferry service to and from Staten Island – as the story is told. From there, he expanded into steamboats, and then went on to build a railroad empire. By the time he passed away in 1877, his reported net worth was \$100 million (\$200 billion in today's dollars).

Cornelius' son William Henry took over the family fortune and, by the time of his death in 1885, had doubled what his father had left him, reportedly passing \$200 million to his heirs.

The third generation took over and increased spending at a time when the business was beginning to decline. By the time these heirs passed the fortune to the fourth generation, the wealth had been halved from its peak and was back down to \$100 million.

The fourth generation included Reginald (Reggie), described as "a playboy and gambler," and Cornelius II (Neily), who spent vast sums of money to maintain his high-society appearance and was quoted as saying, "Every Vanderbilt son has increased his fortune, except me."

The fifth generation struggled to maintain what remained, with the final demise of the Vanderbilt fortune being the 1970 bankruptcy filing of the family business. Anderson Cooper, CNN anchor and sixth-generation Vanderbilt, was quoted as saying, "My mom's made clear to me that there's no trust fund."

It is simple to lounge in the seat of history and see with clarity the missteps that ended the fortune Cornelius built. The greater challenge is to apply those insights to our own situations to preserve wealth to the seventh generation and beyond.

In my previous article, I suggested the course of keeping a business going for more than a century. Instead, let's shift our focus to the two foundations of preserving financial capital: human capital – a family's primary capital – the individuals that make up the family; and intellectual capital – what each individual in the family knows.

This tale will continue next month as we look into the Rothschild family and how the family members' attention to these forms of capital has sustained their family since the 18th century.

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