

as featured in

# MINNESOTA BUSINESS

LEADERSHIP ▶ OPPORTUNITY ▶ GROWTH

## Defending Your Wealth

How multifamily offices can fit into your financial picture

BY CHARLES MAXWELL

**T**he financial lives of successful business owners or highly compensated executives are complicated. Occasional tasks, such as investment management, tax planning, risk management, and estate planning become more involved with wealth. What used to be straightforward has become a maze of important decisions. Eventually, managing one's personal financial life becomes a job unto itself.

Indisputable evidence shows if you want to remain wealthy you need to manage your wealth. Only through a multigenerational and multidisciplinary approach to wealth management can one truly gain control of a complex financial life.

### Family Offices

**W**hen the barons of the industrial revolution amassed their fortunes, the financial services industry was relatively undeveloped. To manage and protect their wealth, the tycoons created private family offices. John D. Rockefeller pioneered the concept in 1882

to manage his family's personal and philanthropic interests.

The private family office was a one-stop shop for estate planning, financial planning, wealth management, risk management, tax planning and personal financial services such as bill paying, managing household staff, negotiating lines of credit, mortgages and loans.

Private family offices became financial safe havens for the families. They provided protection from profiteers; looked after the financial affairs of children; provided services that weren't otherwise available in the financial services industry at that time; brought a consolidated view of business and personal assets and brought the coordination of vendors and knowledge of the entire financial picture under one roof.

During the 1980s and 1990s another wave of wealth was created by the baby boomers. The size of that generation combined with advances in technology and favorable business conditions led to a significant increase in the number of wealthy families. While these families may not have achieved Rockefeller-type wealth, they still needed sophisticated and comprehensive

financial services. The pace of life and business in today's world led to the need for a modern-day version of the family office.

The financial services industry responded with the multifamily office.

### The Multifamily Office

**T**oday, multifamily offices combine old-school privacy with the energy and sophistication of the modern financial services world. Like private family offices, multifamily offices coordinate all the parts of a financial life, bringing organization, coordination and financial peace of mind.

Multifamily offices have professional staff members with expertise in a variety of disciplines. Some core services are provided "in-

### Strategic Wealth Management

Good multifamily offices will not focus merely making an "asset grab," but rather help to create a clear financial portrait by asking strategic questions, such as:

- ▶ Where are you trying to get to financially?
- ▶ How do the components of your financial life fit together?
- ▶ Are there holes in your risk management coverage?
- ▶ Are you taking too much risk?
- ▶ Can you rearrange existing assets to generate a better financial portrait?
- ▶ What do you want for your children, grandchildren, charity? — C.M.

house” and others are outsourced. The outsourcing component is referred to as “open architecture,” where the multifamily office searches the marketplace for the very best vendors for a particular product or service rather than trying to sell their homegrown version. The result is that the client receives a dedicated staff of professionals, a comprehensive view of the entire financial portrait and access to the open marketplace when necessary. All coordinated by a client team at the multifamily office.

Through the multifamily office’s open-architecture design, a client consumes the same products and services he or she would outside the multifamily office platform, but they are coordinated rather than purchased piecemeal. In fact, many of the same professionals are used in a multifamily office, but they flow to clients in seamless coordinated packages. Economies of scale are realized; waste and inefficiencies are driven out of the process.

Generally, the multifamily office is designed for people with a complex financial life and something to lose if not managed. Even those without a great deal of “investable assets,” such as entrepreneurs whose assets are tied up in their businesses, or owners of illiquid stock, stock options, concentrated stock positions or trust accounts, need financial services. Illiquid wealth still requires sophisticated financial services. Forethought, planning, advice and coordination are not “investable asset” dependent.

### Are There Alternatives?

For people with wealth to manage, two viable alternatives to a multifamily office exist; but neither compares exactly. First is the private client services provided by large commercial banks. While a “private client services department” make the bank’s products more user friendly, they remain essentially banking products, which are only a fraction of the entire financial picture. Whereas a true multifamily office operating with open architecture provides a broader selection of products, services and vendor choices, as well as open access to the marketplace.

The other alternative is to personally manage the wealth. However, studies are nearly unanimous: Creating wealth and managing and protecting it require different skills. Consider, for example, the results of a recent study by JP Morgan. Analyzing the *Forbes* 400, which lists America’s wealthiest individuals,

## Compensating the Multifamily Office

Because a multifamily office is not built around selling an internally developed financial product or specific service, there is an inherent flexibility in what services the client can utilize and how they pay for it.

A multifamily office will customize the fee depending on the engagement assignment and the client’s financial profile. Fees may be an asset-based fee much like the fee charged by a wealth management-only firm or a flat fee for clients that are not heavily investment based or a combination of both an asset based and flat fee.

The goal is to make the fee arrangement conducive for a long-term relationship for both the client and the multifamily office. The fee flexibility makes the multifamily office well suited for people with complicated financial lives. As the client’s financial situation changes they can maintain the relationship by simply changing the way they pay for the service. —C.M.

over a 21-year period, the firm discovered that less than 15 percent of the listees were able to remain on the list.

Rather than coordinating the services of attorneys, CPAs, bankers, insurance agents and numerous other advisers on your own, the multifamily office manages the process. You’re the CEO of your financial life; the multifamily office is your personal CFO.

### Things to Look For

Many firms today are entering the multifamily office field. *Bloomberg Wealth Manager Magazine* did its first-ever survey of multifamily offices and published the results in their September 2004 issue.

They identified only 64 true multifamily offices. The survey listed core services multifamily offices offer their clients. The services include: financial planning; wealth management; tax planning; estate planning and wealth transfer; risk management; charitable planning and administration; consolidated reporting; and personal financial services, such as bill paying.

Also keep in mind that open architecture is a cornerstone of a true multifamily office. You want advocacy not sales pressure.

Finally, ask for references. It’s your wealth. Managing and protecting it begins with a thorough interview of the firms you’re interested in. Your upfront diligence will be rewarded by a sense of financial clarity that most people only dream of.

### The Big Picture

A multifamily office offers many benefits, not the least of which is peace of mind derived from knowing that all the information

is coordinated and understood in one place.

The management of a busy person’s financial life oftentimes is not watched over as actively as it should be. Investments may be made, taxes paid, but the pieces don’t fit into a strategy.

The financial services industry has been built around selling products and services; but business owners and executives whose worth is largely tied to a single venture can’t take advantage of what’s offered. The business owner or executive still needs wealth advisory services.

The private family office was created to meet the wealth management needs of industry barons a century ago. The multifamily office is today’s answer for business owners, executives and the affluent. ☐

**Charlie Maxwell**, CFP, (952.835.2577; [cmxwell@thesagepartnership.com](mailto:cmxwell@thesagepartnership.com)) is a partner at The Sage Partnership ([www.thesagepartnership.com](http://www.thesagepartnership.com)), a multifamily office based in the Twin Cities. Sage serves over 100 families in 35 states and 8 countries.

## What’s in a Name?

According to *Bloomberg Wealth Manager Magazine*, some firms may call themselves a multifamily office, but true multifamily offices will provide the following services all under one roof:

- Financial Planning
- Wealth Management
  - Tax Planning
- Estate Planning and Wealth Transfer
  - Risk Management
- Charitable Planning and Administration
- Consolidated Reporting
- Personal Financial Services, such as bill paying —C.M.