GETTING PERSONAL: Single-Family Offices Undergo Big Change
By **Daisy Maxey**
A DOW JONES NEWSWIRES COLUMN
784 words
21 August 2009
11:39
Dow Jones News Service
DJ
English

NEW YORK (Dow Jones)--Younger generations of ultra-wealthy families are showing little loyalty to the advisers their predecessors put in place when taking over management of single-family offices, the private companies that manage their investments.

The trend - which may affect not only investment advisers, but other services, such as bill paying and accounting; and advance planning, tax, estate planning and legal experts - was under way before the market's downturn, but is expected to accelerate as investors, jaded by losses and news of scams, look to rebuild their trust.

The changes have increased demand for multi-family office services, in which several families share resources, and raised questions for many wealthy families about the long-term viability of the single-family office, says accounting firm Rothstein Kass. In addition, commercial entities, such as brokerages, private banks and independent advisory firms, are forming family-office units to compete for the lucrative business, it said.

For some advisers, the changes represent an opportunity, and for all advisers, there are lessons to be learned.

The trend of younger generations looking to put their stamp on the family office is expected to accelerate substantially because of the losses many families suffered in the downturn, said Richard Flynn, head of Rothstein Kass's family office group.

Flynn's group works with about 40 families in three high-net-worth groups -- entertainers and athletes with a net worth of between $10 million and $100 million; family businesses with $25 million to $200 million; and multi-generational families with north of $500 million.

Even long track records and proven returns haven't shielded the vast majority of single-family office executive directors and chief investment officer-level personnel from change, said Flynn.

"Advisers haven't recognized that they have to pay attention to all generations. The more they've helped in family governance issues and family education the more that would have tied them closer to the next generation," he said.

Thomas Holland, a partner with Global Vision Advisors, in Hingham, Mass., an independent financial planning firm, works with clients with net worth of $3 million to $10 million.

Communication should start with the person who created the wealth, Holland said. But with high-net-worth families, the earlier the next generation can be involved -- say in their 40s -- the better, he said. "Unfortunately, I still think that the majority of times today, that doesn't happen."

Jon Carroll, president and chief executive of Family Office Metrics, a family office consultancy, agreed that an adviser must understand the entire family and how it governs. "Advisers that take the longer view will be around for the longer period," he said.

New research by Rothstein Kass found that leadership transitions in single-family offices generally happen within six months of the advent of the new management.

Between 2005 and 2008, the accounting firm conducted interviews with 94 global family offices now controlled by the second generation of wealth, with average assets of nearly $900 million and median assets of $685 million.

Investment management has long been the central focus of most family offices, and the next generation is increasing the resources dedicated to managing family assets, Rothstein Kass found. It also is demanding greater transparency and control, according to the research.

Carroll said he's seen that trend among his clients. "There's definitely increased interest by family offices in ensuring that they're not missing something."

The shift in personnel is exemplified by the recruitment of new senior managers, Rothstein Kass found. In 86% of cases, the office's executive director was replaced shortly after a management transition, and 93% of single-family offices brought in a new investment professional, according to the research.

Offices in the study had an equally high level of turnover among the array of vendors servicing their assets. About nine in 10 offices released either the investment, accounting, legal and/or banking professionals of their parents and grandparents.

(**Daisy Maxey** is a Getting Personal columnist who writes about personal finance. She covers topics including hedge funds, annuities, closed-end funds and new trends in mutual funds, and can be reached at 212-416-2237 or at **daisy.maxey**@dowjones.com)

end