

# FAMILY WEALTH REPORT

**Title:** Analysis: Risk Management Across The Generations

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For most high net worth families, the biggest issues surrounding risk management across the generations were minimizing taxes and controlling or at least influencing how that wealth would be used and managed in the future. Principal preservation was a distant third on the list of priorities.

That was until the financial crisis of 2008. "In 2008 and 2009 we had a real monetary banking system, money market-related, debt-related sense of crisis," says Hinton Crawford, head of private investment counsel for TD Wealth, the investment management arm of [TD Bank](#). "Investment banks and banks that had been around for a long time were failing or close to failing. So the high net worth investor became concerned, for really the first time in many years, that his or her wealth could be at risk."

This defining moment – the financial crisis of 2008-09 – shifted the focus of the conversation between high net worth families with multi-generational wealth from how to distribute and protect wealth to how to preserve it, he continues. "If you start worrying that your principal might not be there in the future, that puts the question of passing it along to future generations in perspective," he adds.

Wealth managers were faced with the issue of re-educating their clients about risk management in an investment portfolio in a time of great stress. While it was important to talk to clients about investment risk management, the focus on that area couldn't distract other professionals on the wealth management team from their jobs of handling risks in other areas such as insurance, taxes, cash flow, etc.

Like Crawford, Eric Dunavant, principal at [Dunavant Wealth Group](#) in Mandeville, LA, finds that he's been spending more time educating clients about securities selection, asset allocations, buy and sell disciplines and portfolio management. "We've become more active than reaction in terms of talking to clients about what we're doing," he says. "We're doing more reviews and reminding our clients that they hired us to be more proactive in managing their investments and portfolios and many find that very comforting. One gentleman actually told us he is sleeping better at night."

Christine Walker, chief risk officer of [Farmers and Merchants Trust Company](#) in Newport Beach, CA and fifth-generation member of a high net worth family, believes that education is one of the most important components in terms of helping wealth families and their heirs understand their investments and their responsibilities to past and future generations. An important part of the Walker family's stewardship of their wealth and the community institutions they are involved with – which include the Farmers and Merchants Trust Company and the Farmers and Merchants Bank – is conserving assets for the future.

"My great-grandfather went to work every day until he was 92 and he lived through the Great Depression, which taught him, and he in turn taught us, to be conservative with your wealth and especially not over-leverage," she adds. "It's important that family members understand where their family money comes from, how it's invested and why it's invested the way it is. Education is key."

When talking to clients, Crawford's focus is to explain what is going on in the global economy, why it's happening and where the areas of actual risk exist. Once clients understand what is going on and why and what risks their portfolio faces, the conversation moves onto how these risks impact their portfolio and whether there should be any changes to how it's managed.

"That could mean moving from money market funds, which have potential exposure to foreign banks, to US Treasuries or US government money market funds or whether it means having a larger proportion of liquid assets in the portfolio, you have a discussion about that and the implications," he says. "All these issues are related to managing risk and getting clients comfortable with the idea that they will get through this."

Showing clients that you have a disciplined process that you apply to portfolio management in good times and bad helps reassure them that risk levels are being appropriately managed in their portfolio, no matter what is happening in the markets, notes Dunavant. His practice implemented a new discipline regarding buy sell decisions that has taken the emotional out of the decision, whether from the client or the advisor.

"It's a challenge right now in this environment to not chase returns, and having a clearly articulated sell discipline restrains that and informs the clients where we are coming from and that we have a process," he says. "Right now we are in the protected mode, where we are trying to protect client portfolios and that is how we are managing portfolio risk right now, via a clear sell discipline."

Another conversation that is occurring around risk management is the question of investment yield, notes Crawford. "In this low interest rate environment, interest from investments is significantly lower than it was in the past and many high net worth families who pass wealth through the generations get to the point where the second and third generations are very dependent on interest income to maintain their lifestyle," he says.

Educating clients about the potential interest rate risk is important, he continues, so that they understand what is happening and what the options are within the portfolio to generate income. "One option is structured products, that we offer in conjunction with TD Asset Management that will provide a reasonable amount of income and not move in concert with financial markets."

In the end, educating high net worth clients with multi-generational wealth about whatever your process is around risk management pays dividends. By spending time doing that, you can cement your value proposition with the entire family, Crawford says. "Once the clients understand what you offer and have been with you a while, they look at that as a significant value add, so it's worth taking the time to do," he adds.