

Freedom From Wealth: Wise Money And Freedom From Wealth In Volatile Times

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As part of his series of articles on "Freedom From Wealth," Charles Lowenhaupt here discusses the impact of volatility on private wealth holders, and how to live with it.

We live in volatile times.

A person can go to bed in Australia as the New York markets open and sleep through a 300-point drop in the Dow index, a 100-point rise, a 50-point fall, further rises and falls, and wake up to a close down 100 points. The New York observer can watch 700 points or more in volatility while the Australian sleeps.

Swings in markets and indices are large and growing larger every day. Stock gains or losses of 3 per cent to 4 per cent are more common now than any other time in recent market history. Currency movements can exaggerate the turmoil. Technology exacerbates the anxiety because we can watch the market gyrations moment by moment. One can become embroiled in minute-by-minute jumps and drops.

How can a private wealth holder get on with life in such volatile times? How can you achieve freedom from wealth if you are consumed by fluctuations in your wealth that can be millions or even tens of millions of dollars in a day or week?

The answer is fundamental to private wealth management: Building strategies to make your wealth do what it is for.

What's going on here?

The markets have been buffeted by mass selling alternating between waves of mass buying, as investors upgrade or downgrade the risk of the US slipping back into recession, the financial crisis in Europe, or any number of events caused by

global uncertainty.

Experts say we should not look for the volatility to subside any time soon. Part of the reason is that the markets are changing themselves. High-frequency trading, the wave of mergers among the world's stock exchanges and the global overhaul of over-the-counter derivatives markets are all altering the landscape of the world's financial markets.

At the same time, big profits are to be made in volatility. Traders and many market makers profit from the ups and downs. And unlike the "forever up" days, when anyone could make money, down markets force investors to turn to experts, who ring up fat fees in the process. Some skeptics believe that volatility is a new mechanism for Wall Street to generate lost revenue.

Putting volatility in perspective

Whatever the reasons for the volatility, there are several important fundamentals for the private wealth holder. First, volatility is smoothed over time, so taking the long view and having a long-term investment horizon are important. The peaks and valleys of the hourly graph of an index become a steady line if extended to five years.

Second, volatility appears more prominently in assets that are publically and actively traded. Closely-held businesses, real estate and private equity aren't revalued second by second. They are often not revalued even year by year.

Third, private wealth is rarely "smart money". With a few notable exceptions, private wealth holders are usually at the bottom of the totem pole when it comes to market timing and calling the short-term trends. Indeed, the fortunes of private wealth holders are made in enterprises, businesses and real estate, held over a period in which volatility smoothes out. Buffett, the Walton family, and others are good examples. The goal is to be "wise" money rather than "smart" money.

For a private wealth holder to achieve freedom from the burdens of wealth, it's critical to start at the beginning with the key question: What is the wealth for? Sound family wealth management requires that every element of private wealth – whether it is investment, governance, education of next generation, or philanthropy – be designed strategically to accomplish the clearly articulated purposes for the wealth. And freedom from wealth requires the comfort of knowing where you want to go and how to get there.

Volatility causes discomfort, while focusing on the hourly and daily ups and downs of the market keeps one from building the perspective necessary to see the road ahead. Living with that discomfort prohibits leading life to the fullest.

Wise private wealth has a truly long-term perspective. Recently, a Family Office Exchange roundtable considered a World Economic Forum study about encouraging long-term investing. The study, primarily for sovereign funds and

pension plans, concluded that “long-term” was five years. In fact, for multi-generational wealth, five years is merely the time from birth to school – not long at all. If a private wealth holder can be a Rip Van Winkle sleeping through twenty years, the volatility becomes insignificant and trends become clear.

If your view is truly long-term, yours can be wise money rather than smart money. Daily swings become irrelevant and you can build strategy to make your wealth do what it is for. But here is where strategy becomes crucial.

- Recognize the importance of due diligence. Know what you own and make sure you have considered all risks you need to consider. So long as you know you own the assets you think you own, volatility is merely volatility. But if what you own merely reflects derivatives and assets owned by others and subject to counterparty risk, volatility can be damaging.
- Analyze the “risk” that you may need cash. Raising cash in volatile times can require liquidating at market lows, so it is important to reserve all cash you may need in the currencies you will need.
- Consider carefully whether you should play at all on the volatile playing field. Market timing likely does not work. It is important to focus on making your money “wise” money rather than “smart” money.
- Recognize that what has always been true is likely to continue to be true: That wealth is built and preserved by investing in enterprises, businesses and real estate rather than financial derivatives.
- Understand the importance of disciplined process to allow you to stay the course. Human nature is to buy high and sell low, but that nature can be tamed by process. This can come by setting out and following standards such as those being developed by the Institute for Wealth Management Standards.

The world has seen great wealth built and preserved even in volatile times. Knowing what your wealth is for, staying focused on where you are going and having well-defined strategies to get you there is what wise money is all about. Having the perspective, the discipline and patience necessary gives any wealth holder the capacity to survive volatility and lead the life he or she wants to lead.

Charles Lowenhaupt is chairman, chief executive officer and president of [Lowenhaupt Global Advisors](#) and is a co-founder and president of the Institute for Wealth Management Standards. He is co-author with Don Trone of the book, [Freedom From Wealth](#).