

Single Family Offices And The Importance Of Trust And Loyalty

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November 23, 2010

[Institute for Private Investors](#), [Campden](#) and [Family Office Exchange](#) all offered new perspectives on family offices last week. With these and the study several weeks ago by [Family Wealth Alliance](#), we have substantial insight about what wealthy families and their offices are thinking and planning today.

Each report has a slightly different focus. IPI says families are happy to have offices, but are looking at ways to change them. Campden finds that even as perceived independence gains significance, outsourcing is seen as a way to make the office more efficient. Family Office Exchange finds that families want ways to evaluate their advisors in terms of value. Family Wealth Alliance sees family offices questioning economics and considering change.

Reading all of these one can conclude that single family offices still play an important function in managing significant wealth, but that all are considering change, primarily in terms of outsourcing. Single family offices are looking for efficiencies and expertise. These themes are prevalent and will continue to be the mainstay of family office conferences and commentary throughout the year.

The Big Picture

Putting all of these studies together, it becomes clear that family wealth is global and the issues of families and their wealth are similar from jurisdiction to jurisdiction. We find no glaring differences between the IPI and Campden surveys. FOX's evaluative tools are not geographically limited. Attendees at the Campden European Family Office conference just concluded in London included families from Europe, the Middle East and Asia. Issues of regulation in the US and confidentiality in Europe, the focus on outsourcing, the desire to bring efficiencies and expertise to family wealth are fundamentally similar for the family in New York, London, Sydney or Hong Kong.

There are some mixed messages in all of the reports as well. Distrust of financial service providers complicates outsourcing particularly as many family offices talk about bringing risk management expertise in house. Evaluating integrity and trust becomes more important than ever.

The high level of satisfaction with one's own family office reflected in the Campden and IPI studies must be balanced against the overtones of substantial change to take place to improve offices. If wealth holders were completely happy with their family offices, the FOX work and Family Wealth Alliance work would not be necessary. In fact, families like family offices because they dislike the alternatives; "tis humble but mine own" works on any number of levels, but clearly many families feel there must be a way to do things better. And because "every family office is unique", each becomes a kind of badge of honor for the family – part of the legacy that wealth is for.

What's Not Being Said

There is, however, a darker concern not explicitly discussed by any of the reports and therefore presumably not "on the table" in the family office industry.

Since 2008, there seems to be a widespread distrust of service providers, particularly banks, and a focus on "risk management" whatever that means. But there is also a mantra that loyalty, trust and "integrity" must be the credentials of the family office employee. With that mantra, due diligence and evaluation become increasingly focused on external providers rather than the family office team itself. Indeed, I hear over and over again how "loyal" family office staff is – "like one of the family."

s danger in all of this. The two necessities for managing family wealth are wisdom and process. Look at what we have, though. Instead of process within the office we exalt "loyalty" and "trustworthiness". The services are provided in darkened rooms – stressing confidentiality and shunning regulatory bodies and keeping outside service providers from seeing the entire picture. Focus on asset allocation and risk management often leads to hiring a "bright and clever" employee rather than designing large teams working under disciplined process.

Above all, the very ideal that "every family office is unique" removes any easy tool to evaluate and assess the processes of the office and the integrity of its staff. Loyalty, trust and integrity are the tools of the Ponzi or the embezzler, who can use those tools in the darkness of confidentiality and an environment of one off systems of operation. Whether Madoff, Long-Term Capital, Enron or Lehman, those who do the most damage do it where visibility is limited and trust is fundamental.

In London, I met an accountant for a large accounting firm, attending a family wealth conference to find "family office" business. He said in effect that the business was not easily found and less easily performed. "The culture of family

office is to be so unique and so ingrown that I have no way of finding out the facts and no process to audit whatever I am supposed to audit.”

The family office world should be proud of its progress. Communications and studies represent early steps in the development of a professional approach to the “business”. Service providers everywhere are ready and eager to service the family offices – and competitive in their pricing. More and more families want family offices and feel they are available at lower cost and to smaller families.

There is a next step, however. That step is the development of standards which can allow trust to be built on process, loyalty to lead to reasonable succession and integrity to be accountable under clear guidelines. Process will be available worldwide.

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