

Achieving Freedom From Wealth in a Post-Madoff World

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Nothing can be more important to a wealth holder than gaining “freedom from wealth” – self-actualizing, or becoming all he or she can become. Achieving that freedom has always been difficult, but Madoff and the 2008 gang of financial tricksters have made the achievement even more difficult.

Only when significant wealth is put in its place as one of a range of tools to allow living life to its fullest can a wealth holder become all he or she is capable of becoming. That was learned by a poet I met several years ago. She was a fine poet from a very wealthy family, and we met at a conference where I was to present thoughts about freedom from wealth.

She was there to learn about hedge funds, a topic the family office assigned her as a member of a committee to recommend whether the family should invest in hedge funds. She left the hedge fund seminar to join our Freedom From Wealth program, and concluded that being a poet was more important to her than studying hedge funds. “I am a poet and do not care about hedge funds. We can hire people to study hedge funds and I can write poetry,” she said.

Achieving freedom from wealth is never easy, and some find that the only route to freedom is giving away all of their investments. The only child, a son, of one of the wealthiest Malaysian wealth creators was expected to inherit all of the blessings of his father’s wealth, but achieved that freedom only when he entered a monastery and took a vow of poverty. Indeed, by assuming poverty, he allowed himself to become all he wanted to be.

He never wanted to spend one moment contemplating how to ensure he owned what he thought he owned or considering the investment risks he needed to consider. There are serious observers of the world’s wealthy who endorse the idea that each generation should give all their wealth to charity, freeing their children to live without the burden of wealth.

Longer-Term Fallout

The financial chaos of 2008 made it far more challenging to achieve that freedom. Suddenly, the world was full of financial chicanery. It seemed like every hand was in your pocket and every provider had schemes to fleece the innocent. Worldwide, family office executives were getting calls from family members asking questions that made little sense. This panic reflected a concern that even the hallowed halls of the family office may be infected by the crookedness of Madoff and Stanford. Without the capability fully to understand the complex financial derivatives and alternatives in which the family was invested, a wealth holder's recourse was to re-engage fully in the office. What ensued was yet another impediment to freedom from wealth: the need to guard one's flank.

In early 2009, I ran into the poet again at a family wealth conference. Two years from when we first talked about gaining freedom, I asked her how she was doing. In fact, she was unhappy. She was spending two days a week in the family office. She wasn't certain why, but it was clear to me: she was struggling with the loss of trust, and her recourse was micromanagement.

The victims of Madoff, Stanford and Lehman were not only the people who were bilked of billions. There were also wealth holders whose fortunes were not stolen, but whose sense of ease and perspective was destroyed. The erosion of trust wound up depriving many wealth holders of the freedom to self-actualize.

If the basis of trust is the character and integrity of the service provider, Lehman, AIG, Madoff, and Stanford challenged the trust of everyone. They demonstrated that apparent integrity and trustworthiness are not adequate. What recourse does a wealth holder have other than his own wits? And if he must rely on his own wits, reliance becomes all-consuming.

Wits should not be the only recourse. The fact that we can board an airplane in London and arrive in New York without great anxiety is not grounded in the reputation of the pilot or trust in the crew or on our own wits. We fly routinely and without worry because there are systems and processes in place, assessed and monitored and honored, which govern our safety. Family offices have had no robust systems and processes.

To live fully and avoid being mired in one's own investments, governance structures, and similar elements of wealth management requires more than trust. It requires the ability responsibly to delegate to trusted professionals. That capacity to delegate, in turn, requires that wealth management be conducted according to processes that reflect the wealth holder's principles.

Those principles must be clearly articulated and understood by all. Then, wealth can be implemented, managed and monitored according to objective benchmarks. These systems and processes always need to be clear, each

aspect easily used, and operating holistically and efficiently and routinely. When that goal is achieved, suspicion fades away. “Wits” can be used for better purposes and freedom from wealth is again possible.

The Institute for Wealth Management, a not-for-profit institute based in Switzerland, was founded to help wealth holders achieve freedom from wealth in a post-Madoff world. The Institute created the Standards For Private Wealth Management, an objective set of global standards that can govern any family’s wealth no matter where they live. These standards provide family offices and wealth holders an easy-to-adopt and easy-to-use program to govern an individual’s or family’s wealth.

The Standards For Private Wealth Management are principles-based, and a wealth holder can select those principles enunciated to which he expects adherence. A standards director is then delegated the responsibility of implementing and monitoring standards, and ensuring that the principles are followed. The standards director and the entire program can be assessed objectively by the family or outside experts.

In a world full of thievery and chicanery it is more important than ever to build protection in process, to have systems in place that allow the wealth holder to delegate responsibility to those who have clear mandates and understand what is expected of them. Those systems can then be run without intense engagement by the wealth holder. Only then can a person with wealth get on with life and achieve freedom from wealth.

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