

## Single-Family Offices Can Be Cost Effective

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Are single-family offices too expensive, impractical and obsolete for the family with \$100 million to \$500 million dollars?

The answer is no, if the family approaches wealth management more strategically and methodically than it may have in the past.

If single family offices are struggling, we need to consider what they are struggling to do. In fact, the challenges they are facing are straightforward. Costs are up both relatively (as values have declined) and absolutely (as diligence and care become more expensive in a world of volatility and financial chicanery).

But closing the family office and turning to an institutional provider is by no means the only way to deal with the challenge. To the contrary, for families with \$100 million or more and who can command an extraordinary level of customized service and care, it is likely to be a mistake.

### **The Importance of Process and Wisdom**

Operating cost-effectively – and with the proper level of care – requires a fundamental understanding of what the family office should be doing. That responsibility begins with an analysis of family needs. Equally as important, a single family office must determine what it should build internally and what it should outsource, so families can benefit from the best wealth management possible regardless of where the talent or capabilities resides.

With respect to needs, every individual and every family needs objective wisdom and disciplined process to navigate a world in which trust has been violated by those on whom the family may once have relied. Without wisdom and process guiding a single-family office, a family group of wealth holders becomes dysfunctional as emotions and reactions prohibit deliberate strategy.

What is the value of wisdom to families and family offices? It is the judgment, integrity and expertise of professionals who have had the benefit of the long view

to answer immediate challenges, such as: How should a global family handle the tax complexities of many jurisdictions? How does a family provide that fiduciary standards are met by family trustees? How does one evaluate and take action to manage the complexities of custody, counterparty risk, or currency fluctuations?

When it comes to wisdom, no company can have all the wisdom it needs. The precedent for bringing outside wisdom into a company is already well established. The most sophisticated companies complement their wise employees effectively through consultants, boards of directors or otherwise. Why should the family office -whether a single-family office or a multi-family office, whether managing \$100 million or \$1 billion -be different? Our own company has complemented our 100 years of experience in helping families manage wealth by building an advisory council comprised of the world's most respected family office and wealth management experts.

Wisdom alone, however, is not enough to ensure the effectiveness of single-family office. There must be objective, measurable standards that govern the single-family operations to avoid the Madoff and similar high-profile frauds of the past two years as well as the devastation that a Lehman or AIG can bring to family wealth. Process is also crucial because families are not inherently process-oriented. Implementing process in a family nurtured on the absolute authority of a matriarch or patriarch requires persistence, care and strong guidance.

Proper process is how the family office ensures that trustees act in compliance with fiduciary standards; how it resources wisdom which is unconflicted and offered with transparency and care; how it keeps fundamental objectives visible and subject to accountability for all advisors; how it is to be designed to align the interests of its employees with the interests of the family; how it insists on the highest standards of due diligence in the consideration of investments. These and all similar responsibilities can be discharged most effectively utilizing processes.

Disciplined process can be built internally, even as functions (and wisdom) are outsourced. The processes of the family office help order and set the standards for the outside providers for the resourced wisdom. Standards of transparency, objectivity, alignment, fiduciary care, due diligence, and perspective can all be built into the process by which outside providers are hired and reviewed.

### **Instituting Process: Standards of Private Wealth Management**

The wisdom of a disciplined process to manage family wealth is clear. However, creating and implementing process from scratch is not easy. One solution gaining momentum in the industry are the standards being developed by the Swiss-based Institute for Wealth Management Standards.

The Institute is developing standards which serve as the infrastructure of appropriate process. Utilizing the standards, a single-family office executive can create and maintain process customized for the family based. One careful and trusted professional – “The Standards Director” – can maintain all of the processes needed to run the office with complete external support as required. If such an executive and several staff might cost the family \$500,000 per year, is that not a reasonable expenditure for the \$100 million dollar family? Outsourcing investment advice, strategic advice, and concierge services will not likely cost more with or without the family office.

The economics of a single-family office can work. So before any family office decides to close its operation, it should consider its functions and ask whether and how it can operate with process and wisdom.

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