95 Theses for Managing Your Wealth

On October 31, 1517, Martin Luther, a Catholic monk in Germany who was distressed and offended by what he viewed as the excesses of the Church*, posted on the doors of the Castle Church of Wittenburg a set of 95 Theses, simultaneously sending hand-written copies to several high church officials.

Declaring that he wrote "out of love for the truth and from desire to elucidate it," Luther's 95 brief propositions set off debate across Germany within two weeks, and across Europe within eight. Refusing a papal order to recant, Martin Luther was excommunicated in January of 1521. Later that year, the Holy Roman Emperor, Charles V, signed an edict against Luther, ordering his writings to be burned.

And thus was sparked the Protestant Reformation.

With shamelessness bordering on intellectual vandalism, we've borrowed Martin Luther's format to set forth 95 Theses for Managing Your Wealth. They represent some important lessons the BWA team has learned during our collective nine decades of investing and wealth management. We hope you find a gem or two for contemplation.

* Which included nepotism, usury, the selling of Church offices and roles, and, especially, the selling of indulgences. These were, essentially, "get out of jail" documents, which purportedly absolved the purchasers from divine punishment for their sins. In Luther's view, remission of sin was obtainable for free, through confession and God's grace, and therefore selling it was an act of corruption.

On Living a Wealthy Life

1. For a balanced life, invest wealth for returns, spend income for pleasure, and enjoy activities that require little cost.

2. Debt is the opposite of wealth.

3. The most difficult decision for many investors is when to monetize an asset that has created wealth.

4. You can only do four things with wealth: spend it; save it; give it away; or pay it in taxes.

5. The loss of wealth results from the lack of care taken in spending it; saving it; giving it away; or paying it in taxes.

6. If you choose to give your money away, do not expect to see it again.

7. The natural tendency of wealth is to dissipate, so that wealth needs to be renewed, year to year, generation to generation.

8. Wealth dissipation may be slowed by proper planning and offset by teaching each new generation to be good decision-makers who renew wealth.

9. We all come into this world being taken care of, and we hope to leave it the same way. In the interim, we need to learn to care for ourselves and then others.

10. When a problem arises, address the issue, not the person.

11. The human imagination will always exceed the resources available to satisfy it.

12. Wealth is important, and it is important to take care of your wealth, but it will never do as much for you as you can do for yourself.

13. The wealthy are an envied minority in every society.

On Economics and Investing

14. Not all news is actionable for investment purposes.

15. Sometimes doing nothing is the best decision.

16. Real economic growth comes from increased productivity.

17. The intrinsic value of an investment is a composite of discounted cash flows from an asset, plus terminal residual value.

18. Inflation forgives old debt.

19. Deflation impairs the ability to meet fixed obligations, or to make new expenditures.

20. Returns available in financial markets are finite.

21. Financial markets have little regard for investment projections designed to sell products.

22. Economic history does not necessarily repeat itself. Past experience is not a guarantee of future results.

23. The expected cost of insuring against risk in the financial markets is the reduction of investment returns.

24. All assets are for sale at a price. All assets will eventually be sold or abandoned.

25. Gambling and investing are two different activities. A successful gamble requires others to lose, while a successful investment will increase collective wealth.

On Spending

26. To increase wealth, returns (income plus appreciation) must exceed withdrawals (expenses, taxes, and spending), with the difference reinvested. This is a mathematical certainty.

27. Because returns do not arise evenly over time, withdrawals for spending need to be taken at a conservative rate that is less than the after-tax returns achieved.

28. When purchasing an asset for personal use (a house, boat, etc.), consider not just the upfront price, but also the maintenance and how much someone else may be willing to pay for the asset when you are finished with it.

29. When funds are earned erratically, lifestyle commitments based on the largest amounts available will accelerate wealth dissipation.

On Learning to Invest

30. Never invest in anything you don't understand.

31. Over-simplification is the enemy of knowledge.

32. Excessive complexity is the enemy of understanding.

33. Transparency results from information presented in a format that is readily understood.

34. Fear and greed are the most common sales tools for investment products.

35. Seek to control factors you can control: Risk, fees, taxes, and spending.

36. Accept what you cannot control: Market movements.

37. You can't spend relative dollars: Invest for total, absolute, after-tax return.

38. You can't buy past performance.

39. If you want the same returns as an index, invest in an index fund. You do not need the advice of others to accomplish this.

40. Diversification of investments (up to a point) is more likely than not to help preserve wealth.

41. Investment in efficiently-run businesses with expanding profit centers is more likely than not to increase wealth.

42. There are only five basic asset classes: Stocks, bonds, cash, real estate, and commodities. Everything else is packaging.

43. Complexity breeds expenses more readily than returns.

44. Truly uncorrelated assets are very rare.

45. Over-diversification (de-worse-ification) creates complexity that increases expense without enhancing returns.

46. Superior and inferior managers can be found in every asset class.

47. An inferior product or manager can more than offset the benefits of a superior asset class.

48. Return is driven by the price paid for an asset: Price Matters.

49. Cash reserves and minimal debt offset volatility, providing staying power through economic cycles.

50. Cash provides the greatest liquidity available at the lowest management expense.

51. Individual investors are subject to life events—marriages, divorces, house purchases, the arrival of children, education costs, job losses, business setbacks, illness, death, estate taxation—that create the need for liquidity.

52. Individual investors pay income taxes; universities, foundations, and pension funds do not. This is one of the reasons individuals cannot "invest like Yale".

53. Individual investors do not enjoy wealth replenishment through capital campaigns. This is another reason individuals cannot "invest like Yale".

54. A bull market makes everyone appear to be a genius.

55. To determine your investable wealth, first set aside cash to pay your bills and other obligations, and then separate out your illiquid assets. Only the balance is investable.

On Risks to Wealth

56. Death reduces wealth first by taxes and then by division among heirs, creating the basis by which families pass from "shirtsleeves to shirtsleeves in three generations".

57. Societal risks to your wealth include inflation, deflation, recession, depression, war, taxation, and social and technological change.

58. Risks to your wealth created by other persons include theft, bad business relationships, bad marriages, and family fights.

59. Risks to your wealth that you personally present include youth and inexperience, old age and infirmity, and over-indulgence.

On Investment Products

60. When an investor requires a specific rate of return, such as 8%, the marketplace will create investment vehicles purporting to deliver the required return. Whether the projections become reality is a different question.

61. Not everything described as an asset class, is.

62. Hedge funds and private equity funds are primarily compensation arrangements, not asset classes.

63. Paying higher fees and locking up your money does not magically cause returns to rise.

64. Leveraged investment products can work well until the market changes and they fail.

65. Attractive investment opportunities are not infinitely scalable.

66. Attractive investment opportunities usually have a life cycle, with the highest returns earned by the early and most sophisticated investors. By the time a "hot product" is being marketed to unsophisticated investors, the opportunity is over.

67. When investment returns are projected on the basis of a hypothetical modelled portfolio, the investment is exactly as presented: Hypothetical.

68. Track records of historical returns are the outcome of a select set of past results, not a guarantee that an investor will realize those same results in the next year or at any time in the future.

On Evaluating Investment Products

69. Investment advice from firms that engage in underwriting and trading securities is inherently conflicted.

70. Investors should not pay a separate advisory fee to an institution for allocating assets to products it has underwritten or organized or services.

71. Private placements require thorough reading of the investment memorandum, analysis of the fee structure, and review of the investment thesis and risks. If you aren't willing or able to do this, steer clear.

72. Cash reserves needed to meet capital calls of private equity funds during their investment periods (often many years) reduce the economic returns realized, whether or not the manager admits this.

73. Any co-investment by managers in a fund should be evaluated against the fees the managers will earn.

74. Investment analysis should be an ongoing process that takes into account the changing needs of the investor and the changing opportunities in the marketplace.

75. All managers underperform some of the time.

76. Smart money managers rarely "turn stupid", but their investment styles may be out of step with the market for significant periods of time.

On Protecting Yourself

77. If you do not learn about and pay attention to your wealth, someone else will, and you may not be happy with the results.

78. Trust should be earned, and not too easily.

79. Accredited Investors and Qualified Purchasers are people who are so wealthy for regulatory purposes that the government presumes they can protect themselves. *Caveat Emptor.*

80. Don't confuse salesmanship with friendship.

81. A disclosed conflict of interest is still a conflict of interest.

82. Read the fine print. Especially, read the fine print about risks and conflicts of interest, and believe it.

83. If returns look too good to be true, they are probably either (1) not real or (2) not sustainable.

84. If you are asked to sign a document before investing, read it or have a trusted advisor read it.

85. If you are pressured for a quick decision on an investment, the appropriate decision is "no".

86. Transparency matters: Financial holdings and their valuation need to be confirmed by trustworthy third parties, including custodians, auditors, and legal counsel.

87. If your information is not adequate to make an informed decision, get more information.

88. Be aware that investment brokers who avoid fiduciary status do not have an obligation to act in your best interest.

89. The construction of an effective investment portfolio requires the avoidance of bad financial products, the identification of good managers, and consideration of the investor's personal circumstances.

90. For above-market returns to be retained, they must be withdrawn and reallocated from time to time.

91. Beware the word "solution" in investing, especially when it is used to market a purportedly simple answer to a complex or difficult issue.

92. If you cannot separate emotion from investing, hire someone to do it for you. Investing on the basis of emotions is likely to lose you money.

On Helping Your Heirs

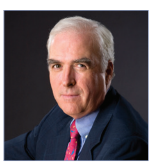
93. Do not create a trust without a reasonable mechanism for replacing the trustee.

94. Children and other heirs similarly situated expect to be treated equally. The absence of mutually understood and accepted reasons for unequal treatment will create differences and disputes that accelerate wealth dissipation.

95. Nobody wants to pursue their parents' dreams. Let your children pursue their own dreams.

About the Co-Authors

Elizabeth P. Anderson, CFA, is the founder of Beekman Wealth Advisory LLC, a boutique financial consultancy that provides outsourced CIO (Chief Investment Officer) services and custom wealth education to a select number of ultra-high net worth families.



Joseph C. Mahon, Esq., is a partner in the Estate Planning and Administration Group at Frankfurt Kurnit Klein & Selz PC. He advises high net worth clients, executives and business owners on family wealth planning, administration and succession. Mr. Mahon assists clients in structuring, documenting and implementing plans to maximize and protect wealth. He frequently writes on Trusts and Estates matters and has been published in Trusts & Estates *magazine,* Unique Homes, *and other publications.*

Mr. Mahon and Ms. Anderson are husband and wife.

The co-authors gratefully acknowledge the valuable contributions to this article of Patty Zemlanicky, CFO/CCO, and Lauren Archer, Vice President, of Beekman Wealth Advisory, LLC.

We'd be delighted to discuss your family's needs—or any of our 95 Theses for Managing Your Wealth.

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