

Why Start a Single Family Office?

By Richard C. Wilson

Many families start a single family office or hire a multi-family office after being burned by their advisors not thinking holistically, not speaking to each other, and not putting the family's interests above all else. Creating a family office does not necessarily mean completely leaving your wealth management advisor or private bank either, it could simply mean supplementing that relationship with more holistic staff that is dedicating to serving only you.

5% Mistake Motivation: The problem with being worth \$50M, \$100M or \$500M and not having a family office is at that point, you typically have many operating businesses and real estate assets to manage; employees to engage with; and many other time consuming travel or management commitments. At the same time your CPA, insurance agent, wealth advisor, etc. probably only speak with each other once a year or once a quarter at best and it is many times up to you to remember details and communicate items between your advisors. With so much going on you should not be the one required to remember when you need to sell an asset, close a deal, or start a new LLC. At the same time, if you are worth \$1M and you make a 5% mistake you have lost \$50,000 but if you are worth \$100M and you make a 5% taxation mistake on your estate you have lost \$5M and you could have paid for a full time team for several years with that money to not only avoid this one mistake; but to also avoid others, find better quality investments, and to free up your time.

If your family office is setup right it should help protect you from both known and future unknown risks; allow you to adapt quicker and move faster towards new opportunities; and most importantly, allow you to focus on what Dan Sullivan would refer to as your unique ability whether that is negotiating deals, acquiring competitors in your industry, or developing real estate.

Direct Investment Motivation: Families of significant wealth are interested in buying apartment buildings, developing real estate, buying operating businesses directly. These acquisitions are not always through a private equity fund, an exchanged traded product or sponsor of some type who may charge a promote or percentage of profits. Many families would rather build teams and execute management of assets themselves since those skills are what built their wealth in the first place. If you have your own family office you can typically attract and execute more direct investment deals and this handbook will discuss this aspect.

Single Family Office Definition: A single family office is a holistic, full-balance-sheet wealth management solution for an affluent individual or family.

Virtual Family Office: A virtual family office is a single family office which has decided to have just 1 or a maximum of 3 full time professionals running their single family office with all other services outsourced. In short it is a very easy to learn single family office structure that can enable families that otherwise may consider a full staff of 10-15 professionals too expensive either for their comfort level or level of wealth relative to that overhead.

Wealth-X recently reported that there are over 60,000 individuals globally with over \$100M net worth and that number is growing. We believe that this space is growing rapidly, and believe there are now over 10,000 formalized single family offices globally.

If you are worth \$50M you may or may not need a family office of your own but some families like to create very lean virtual family offices at this stage. If you are worth \$100M you almost always need some type of single family office or virtual family office in place. For these reasons the \$100M+ or centimillionaire term will be used throughout this book but it applies to anyone who wants to start a single family office whether they are at the \$50M or \$10B level of wealth.

When to Start a Family Office: The best time to start a family office would be before your liquidity event or as your net worth is increasing at a pace where it is inevitable that you will reach a level of \$50M or \$100M+ net worth. While it is ideal to start before a liquidity event to have structures setup up property to optimize taxation and

management of the capital from the start; many families have started in the past by initiating a holding company and then later hearing about the family office trend and start to formalize their holdings and philanthropy work into a family office. Most families and every family we serve created their wealth through controlling a portfolio of real estate or operating business(es), they did not inherit their fortune, get lucky, or do so as a minority investor, so it is also natural for an individual worth \$100M to want to stay in the driver's seat when it comes to managing their wealth. These types of families don't create all of their wealth through their own maneuvers just to give it over to someone else to manage for a large fee typically, not entirely at least. Out of our 14 family office clients most are 57-80 years old, and the youngest is 46, and most first generation centimillionaires and billionaires are older by nature of how long it takes to build up such wealth. The timing around when the wealth is created and how close that is to when you organize your holding company or holdings into a single family office is by far more important though than age.

To learn more about starting a family office, please see our free e-book on the topic which can be found on FamilyOffices.com.

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