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WEALTH IN PERSPECTIVE

SEPTEMBER 2004

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Transitioning from the role
of entrepreneur to that of financial
steward can be head-spinning during
the first year. But sound planning and
expert advice help ease the challenges
of newly created wealth.

By Anne Field *Illustrations by Edward Fotheringham*

TOP VIEW

Entering the world of the newly affluent can invite a deluge of solicitations from charities and family, giving rise to dilemmas concerning how that wealth should be managed. It can even incite panic attacks. But maintaining a low profile while carefully consulting qualified money managers can help ensure that, during the transition, we build a firm foundation without compromising the relationships and values that have supported our success.

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AFTER SELLING HER 9-YEAR-OLD MATTRESS COMPANY, Sunny Kobe Cook spent the evening at Ruth's Chris Steakhouse in Seattle, drinking champagne with friends and family. Cook, who was raised by a Western Union repairman and never attended college, toasted the sale price of somewhere between \$30 million and \$50 million—she declined to say exactly how much. As often happens with celebrations, reality set in when the champagne wore off the next morning. She sat in her kitchen, head in hands, surrounded by boxes piled from floor to ceiling and filled with papers and belongings from her former office. She should have felt a sense of triumph, but all she could do was gaze at her cluttered kitchen, overwhelmed by the remnants of her old life and a feeling of disbelief.

For entrepreneurs like Cook, 45, who suddenly find themselves with a windfall, the transition to wealth is a complicated, difficult time. People who have exhausted their energy running a business—not managing vast sums of cash—now must immediately decide what to do with their liquid

After the Windfall

assets. Family and friends may be resentful, or expect handouts. Swarms of charities descend in search of donations. “I think the first year is the hardest,” says Lee Hausner, a psychologist and vice chairman of IFF Advisors in Irvine, Calif., a consulting firm that works with wealthy individuals and families. “It turns your world upside down. It can be an extraordinarily overwhelming experience.”

In extreme cases, entrepreneurs develop what Stephen Goldbart and Joan DiFuria, cofounders of the Money Meaning & Choices Institute in Kentfield, Calif., call “sudden wealth syndrome,” a condition characterized by debilitating anxiety and depression, rather than by the joy and sense of accomplishment one expects to accompany a significant financial event. Goldbart, for example, recalls one entrepreneur who was so paranoid, fearing everyone he met was only after his money, that he became immobilized, unable to make decisions about anything and barely able to leave the house. As for Cook, she never became depressed. But, she admits, “I had panic attacks throughout the first year, thinking we would go broke the next day.” She recalls many Sunday nights, soaking in a hot tub with her husband, worrying about their financial situation.

Yet, the reactions of, say, lottery winners and recently wealthy business people are typically quite different. The entrepreneurs often feel more justified than other suddenly wealthy people about receiving their money. After all, they ostensibly worked for their fortunes. “They can say ‘I really deserved it,’” says Hausner. Gradations exist, however. Entrepreneurs like Cook, who have experienced a decade or so of the business roller coaster before becoming financially secure, also tend to handle sudden wealth with more aplomb than newly minted entrepreneurs. “The more mature they were before, the better they will handle the transition,” explains Goldbart.

Take Raul Fernandez, who started Proxicom, a technology services company, in 1991. By the end of 2000, he had made \$100 million in an IPO. While almost immediately he invested in three sports

teams and bought a two-bedroom condominium on Fisher’s Island, Fla., he made few other changes in his life. In fact, he continued to work long hours at Proxicom. “It’s not as though I was an overnight success,” he says.

Still, even the most seasoned entrepreneurs can experience excruciating self-doubt. Just before Cook signed her deal, for example, she experienced what she calls a “major panic attack” in a store, pacing back and forth, wringing her hands. “I’ll never manage to accomplish anything again,” she told a long-time friend, who eventually calmed her down. “He told me, ‘You’ve done more than most people ever do. You don’t have to prove anything to anyone anymore.’”

FIRST-YEAR SYNDROME

The thought of not bringing home a regular paycheck unnerved Cook, despite her business savvy. Without that weekly or monthly accounting coming in, she felt as though she had nothing to live on—her large nest egg notwithstanding. “People are in a new financial situation, and they’re not sure what it means,” suggests Gary Ambrose, a director at Personal Capital Management in New York. “They knew what they could afford before, but now their judgment is clouded.”

Indeed, Cook had no idea just how much she needed to live. In a panic, she would call her financial advisor to see whether she was going to be able to pay her bills. She recalls opening envelopes and thinking, “Oh my God, how will I cover this?” Calmly, the advisor told her she was going through what he called “first-year syndrome.” Particularly during the first year, people with sudden wealth feel overwhelmed by managing their new money and find it difficult to readjust their lives. To help her cope, Cook’s advisor called her in for regular meetings. At these conferences, Cook not only learned lessons in more complex investing, but also devised a plan to make her feel secure. First, she and her advisor determined how much money she required for living expenses. Then, he invested a portion of her wealth into securities that would provide a steady monthly income. This income was deposited directly into her checking account, giving the illusion of a regular paycheck.

Cook decided to invest her money in a diversified portfolio. However, other entrepreneurs are not so levelheaded. John Nersesian, managing director for wealth management services at

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Nuveen Investments in Chicago, remembers a client who sold his business for \$5 million and proceeded to invest almost all of the proceeds in a series of start-ups. All of them failed. Conversely, other newly wealthy people tuck their money under the mattress. Susan Bradley, a financial advisor with Raymond James and author of *Sudden Money: Managing a Financial Windfall*, once worked with a client who put \$45 million in a money market account—and kept it there for months. Such investment confusion is one reason why, six years ago, former entrepreneur Michael Sonnenfeldt founded a New York-based group called Tiger 21 (see “Tiger Tales,” below). Tiger 21 gathers together small groups of newly wealthy business people to discuss investment skills and other matters related to investment for novices.

With her investments secure, Cook resolved to maintain a sensible approach to spending. She bought a new Acura, because, she declares, “I like Acuras.” This one she paid for in cash, instead of in monthly installments. On her honeymoon cruise, she and her husband stayed in the owner’s suite, instead of a regular cabin. About a year after selling her business, the couple flew on a private jet to India for the husband’s 40th birthday. But other indulgences were often nearly impossible, either because she was not interested, or they struck her as silly extravagances. She recalls admiring a set of demitasse spoons, at \$30 each, and being unable to pick them up to pay for them. Her husband eventually scooped them up for her and plunked them on the counter. “Sometimes I need help,” she admits.

Deciding how, when and what to purchase are typical quandaries for the newly wealthy, according to experts. Surprisingly, many do not go on spending sprees in the first year. Recently wealthy entrepreneurs, however, often purchase a new house. Six months after receiving her windfall, Cook bought a three-bedroom condominium in Deer Valley, Utah, a favorite skiing spot. Others make similar moves. Rob DeSantis, a cofounder of Ariba Software who amassed more than \$100 million after an IPO in 2000, made few changes in his life in the first year, except for buying a beach house in California. Fernandez of Proxicom, meanwhile, saw a picture of a

vacation home on Fisher’s Island and bought it sight unseen.

KEEPING MUM

Cook quickly realized she did not want a dramatically different lifestyle. Like many entrepreneurs, she has also made it a point not to discuss with anyone—not even most family members—the exact amount of the sale. Contract stipulations limited what she could reveal, but Cook also preferred, from the beginning of the process, to keep it to herself. “People realize I have money. They just don’t know how much,” she says. Similarly, Steve Schultz of Atlanta, who sold his software company to Automatic Data Processing in 2000 for “eight figures,” kept mum about the specifics after his sale. “I told neighbors and friends I sold the company,” he recalls. “I didn’t say, ‘I’m very wealthy.’”

Experts advise that maintaining a low profile is probably a wise move for the newly affluent, at least for those who want to keep their old friends. “The less showy they are, the more they keep their friendships,” Goldbart says. In some cases, however, fear of alienating friends can paralyze the newly wealthy. Goldbart counseled a company cofounder who served as CFO in her business before and after an IPO, in which she made more than \$70 million. Although she had always worked with numbers and was eminently comfortable making corporate financial decisions, she was unable to do anything with her own

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Tiger Tales

Suddenly wealthy entrepreneurs who are at a total loss as to what to do with their new money have an ally. Michael Sonnenfeldt, a former entrepreneur himself, oversees The Investment Group for Exceptional Returns in the 21st Century, or Tiger 21. Described by Sonnenfeldt as a peer-to-peer learning group for affluent investors, Tiger 21 now runs three (soon to be four) groups, each with a cap of 12 members. Monthly meetings are held in New York, but include members from around the country. Group attendees help each other not only choose investments, but also address other crucial issues they face, from how to bring up children to what to do with the next phase of their lives.

Membership is not for everyone. Tiger 21 candidates must have an investable net worth of \$10 million to \$100 million, and pay annual dues of \$20,000. For more information call 1-888-TIGER-21 or visit www.tiger21.com.

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money. Finally, her financial advisor suggested she speak to Goldbart. Together they devised a plan for allocating her money so that she could enjoy her wealth without risking her friendships. “She bought a new house, though not a bigger one, and a new car,” he says.

Entrepreneurs who do indulge their family and friends meet mixed reactions. Cook took her mother and stepsons on a trip to Antarctica, and relished in the experience. In other cases, however, such splurges can backfire. Money Meaning & Choices’ DiFuria, for example, recalls a client who paid for lavish vacations for parents, sisters, brothers, nieces and nephews for two years. By the third year, the family had grown to expect the trip to be a regular event. “That took the joy out of it,” says DiFuria. The client was forced to write a letter to the family explaining they were going to forgo the trip for that year, and that he would think about trying again the next year.

At other times, entrepreneurs simply fail to thoroughly consider the consequences of their actions—however generous their intent. DiFuria points to another client who suggested to his sister that he pay for his favorite nephew to attend a private school. His sister quickly chastised the client for interfering with and undermining her husband’s feeling of self-worth as a provider. Goldbart suggests that the newly wealthy become crystal clear about their intentions when they offer money or gifts, and adhere to a hard-and-fast rule: “You have to manage the impact of your wealth on others,” he notes. “Giving money to people has a powerful impact.”

Newly found wealth can often affect our most delicate and treasured relationship with our spouse. In Cook’s case, she and her new husband became partners in her first year of wealth, and together they forged their new life together. But, of course, they also were newlyweds. Standing marriages face more difficulties. A spouse unaccustomed to being in the limelight “suddenly may find herself being put on boards, forced to be in a world she has no background for,” says Hausner. The couple might realize they have irreconcilable goals for their new

wealth—one may want to establish a foundation to help the less fortunate, while the other would rather invest it entirely for the family. In other cases, conflicts arise as to how to treat the children. “One spouse will want to be as generous as possible; the other may say, ‘Don’t leave them a lot and let them work for it,’” says Hausner, who nonetheless reports that she has not witnessed many marriages destroyed by newfound affluence. But, she adds, the money can magnify the tensions and disagreements present in any relationship.

SURGE OF SOLICITATIONS

If our windfall becomes public knowledge, however, we are bound to attract unwanted attention. Because Fernandez’s IPO was covered by the media, he was deluged with requests for charitable donations—letters, calls, emails. “Some were heartbreaking, others weird,” he says. Fernandez recalls going to a breakfast with someone from a nonprofit advocacy group soon after the IPO and was stunned at how quickly and unceremoniously the person started asking him for money. “I think we hadn’t even been served coffee before he asked me for a million bucks,” he recalls.

Cook’s deal received a fair amount of local press. She, however, was prepared. Before she sold her company, she met with an attorney who specializes in nonprofit work. Two months after the deal was signed, she established a family foundation with its own email address and website. When the news of the sale hit the papers, and requests for charitable donations started pouring in, she was ready to accept inquiries.

Ultimately, the key element affecting how entrepreneurs react to new wealth is what Hausner calls “the money messages” they received as children. “Money can be a very emotionally charged subject. If parents argued a lot about it or used it to manipulate their children, that can have a lot to do with how uncomfortable people are” after a windfall, she explains. DiFuria recalls one entrepreneur who suffered a bout of guilt because he had so much more money than his parents, and, as a result, was unable to do anything with it. “He felt he had surpassed them, and it wasn’t right,” she says.

Fortunately for Cook, those traumas never existed. “My parents, teachers, everyone else I knew, always told my sister and me we could do anything we wanted,” she says. “And we have.” ■

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