FEBRUARY 2017 | A PUBLICATION OF INSTITUTIONAL REAL ESTATE, INC.

REAL ASSETS ADVISER

Family Business

Maria Elena Lagomasino, CEO of WE Family Offices, on the four common mistakes that destroy family wealth.

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By Mike Consol and Sheila Hopkins

FAMILY Business

Between 1959 and 1962, more than 100,000 Cubans fled Castro's Cuba and sought a new life in the United States. Among this group of industrious immigrants was 11-year-old Maria Elena Lagomasino. Unlike the majority of Cuban immigrants, however, Lagomasino's parents did not settle in the popular Miami neighborhoods. Instead, they continued up the coast to the much colder Hartford, Conn. Surviving the trip from Havana to Hartford was nothing in comparison to surviving the winters of New England.

But survive she did, and Lagomasino has gone on to carve an esteemed career in the wealth advisory business, the success of which can largely be traced to the values and lessons she learned as she started anew in a foreign land — flexibility, adaptability, problem solving, and planning for an unknown future. And much of her world view on how to apply those concepts to wealth management can be traced to her nearly 40 years of advising wealthy families around the world through the auspices of various investment banks, where she came to realize that you cannot serve two masters. Either your firm comes first, or the client comes first. For Lagomasino, it was obvious that the client must come first.

To make her client-first strategy a reality, Lagomasino, along with managing partners Santiago Ulloa and Michael Zeuner, founded a new firm, WE Family Offices, in January 2013. The unusual name was chosen as an acronym for "wealth enterprise," but also because it encompassed Lagomasino's business philosophy — she and her client families are working together toward a common goal of developing and executing strategies to assure and institutionalize multigenerational wealth preservation.

What sets WE apart from other wealth managers is its flexibility and its conflict-free platform. WE is a family office handling the needs of multiple families. Clients can hire WE to be their family office or to be an extension of an existing family office, working for a family in whatever way best supports the family objectives. But Lagomasino did not launch WE to simply be flexible — she launched it because she saw a need for a conflict-free adviser.

"I think the ownership of the kind of firm that does what we do has to be unaffiliated with any public or financial services company," says Lagomasino. "To objectively advise families, you have to be independent of ownership. You have to be independent of thought. You have to be independent of access so that you have no restrictions and can make the entire world the oyster for the families. You can't do that if you are part of a financial institution."

Lagomasino feels strongly that wealth advisers have a duty to act as fiduciaries for their clients, whether regulations require it or not. It is simply the ethical thing to do. But because advisers often find themselves caught between their allegiance to their clients and their allegiance to their firm — and thus often promote proprietary products that do not serve the client's interests — she has been actively working to promote fiduciary regulations for registered financial advisers, similar to those of ERISA. To that end, she is a founding member of the Institute for the Fiduciary Standard, a think tank promoting investor-first fiduciary standards. Acting as a fiduciary is second nature to Lagomasino, but it has become a controversial and contentious subject in the industry.

IT IS A BUSINESS

Over the years, Lagomasino has found that families that were most successful in sustaining their wealth on a multigenerational basis organized and managed their wealth like a business enterprise. Because all of her clients accumulated their wealth through business enterprises, it is a model they are familiar with, but many do not think to apply it to their personal wealth. This is where WE steps in.

"We see Mr. X or Mrs. X as the chief executive of Wealth, Inc.," says Lagomasino. "What we try to provide is all of the information, all of the infrastructure, all of the analytics, all of the support, so that they can make the best decisions for their family, just as they do as CEO of their operating companies."

This support starts out with a complete inventory and mapping of the family's assets and current ventures, whether personal or business-related. WE's typical family — though there is no such thing as typical — still owns an ongoing operating company and has many different investments with different companies, different asset managers and different banks.

"You map out every asset that the family owns and understand every legal structure and the requirements of those structures, and then you map out the family and the family dynamics, before you start giving one recommendation," says Lagomasino. "Mapping is hugely important to the families, because most families haven't seen the whole global picture of everything they've got and its implications."

The road map is used to help a family get to where it wants to be, whether that involves liquidity requirements, cash flow requirements, diversification or performance. Everyone talks about performance, but they often fail to take into account expenses.

"Part of our investment philosophy is that it's not just about performance, it's about returns — and returns are about performance, fees and taxes," says Lagomasino. "It's about what the client gets to take away in his pocket. Frankly, over the last couple of years, we have felt that to the extent that a client is willing to give up some liquidity, there are much better returns in the private markets than in the public markets."

Once the inventory is complete, the real work can begin. The key to everything is a consolidated global report that allows WE to analyze all the information. From there, the wealth manager is able to advise the family regarding their asset allocation, as well as their manager and vehicle selection. WE also provides analysis around their fiscal issues, including estate or tax planning, as well as the fees that they are paying and where they might be reduced. In addition, WE works with the family dynamics, helping put in place the right governance, while facilitating the family meetings and decisions.

"We don't just advise," says Lagomasino. "Once the family has made the decisions, we execute on them, whether it's deploying capital to managers or it's working with their attorneys to enhance some of the structures or it's working with their banks to be able to help them get the right resources or the right facilities. It is the whole *megillah*."

Lagomasino is quick to point out that WE is not an asset manager; it's a wealth manager.

"I'm talking about it with a capital W. It's an umbrella over everything that is part of their wealth from cash in their personal bank account to their operating company and everything in between."

ERRORS IN JUDGMENT

While the strategy for wealth preservation may be different for each family, the mistakes that can destroy that wealth are pretty much the same. Several years ago, Lagomasino worked on a report for J.P. Morgan to determine why some billionaires were named to the *Forbes* wealthiest people list year after year, while many others fell off after just a few years — or even after just a year. The report zeroed in on four common mistakes that account for the majority of major wealth destruction events.

GETTING PERSONAL

Maria Elena Lagomasino

How do you like to spend your time outside of work?
To me, family is the most important aspect to life. Everything else is fleeting. When I am not working, I love to spend time with my loved ones and my family.

First choice for a new career:
I'd start another firm just like WE. I don't want to do anything else.

Most influential book you've ever read?
The Little Prince by Antoine de Saint-Exupéry

What is the best career advice you've ever been given?
Do what you love and love what you do.

Which historical figure do you most identify with?
Queen Elizabeth I of England

What phrase do you think is most overused in your industry?
The word adviser is misleading. Lots of people call themselves "advisers," but more often than not, they are selling, not advising.

> *"All the normal issues that every family contends with become huge when you layer $100 million on top of them."*

"If parents are not leaving their children all the money, and if it is not split in equal parts, their children will not interpret that as being a rational decision."

Number one is concentrating wealth in a single enterprise or asset. When the tech boom went bust, or the real estate markets crashed, wealthy families with their wealth concentrated in tech or real estate suddenly became not so wealthy. Ted Turner is an example of wealth concentration. He went from having $10 billion dollars to having $1 billion after the AOL/Time Warner merger, which turned out to be a disaster.

The second factor, says Lagomasino is over-leverage. Donald Trump is an example of this behavior, as he goes on and comes off the *Forbes* wealthiest list, depending on the debt he is carrying on his properties. More than one real estate tycoon — or fund manager — can relate to the dangers of overleverage in a rising interest rate market or a crashing economic market.

Overspending is another wealth destruction activity. Lots of people fit this category. Lagomasino likes to use Bernie Ebbers, who co-founded WorldCom and ended up committing massive financial fraud in an effort to save it, as an example of someone who not only was over-concentrated in one asset (WorldCom), but was also overleveraged and overspent.

The fourth reason is family disagreements. You can have a massive wealth destruction event when estate planning has not been done well and siblings, children, cousins and others all get involved, says Lagomasino. Families are emotional organizations, and money is a magnifier, causing little issues to become big issues. Sibling rivalry, a difference of opinion between spouses, divorce, inheritance issues, all the normal issues that every family contends with become huge when you layer $100 million on top of them.

Lagomasino asserts this is where running the wealth enterprise like a company rather than like a family provides the stability needed in times of emotional upheaval. It is all in making sure rules are put in place before they are needed, and clearly communicating them.

"You have to have rules," Lagomasino emphasizes. "You have to be able to say, 'This is the way that we're going to make decisions. This is the way we're going to execute those decisions. This is who has decision rights and who doesn't on how we manage this wealth. And here's how we are going to communicate.' I always tell the parents that no matter how great their rationale is for whatever decision they make, if they're not leaving their children all the money, and if it's not split in equal parts, their children will not interpret that as being a rational decision. The children will react emotionally. So the communication between the different family members around all these issues and the clarity and the reasoning behind it is absolutely critical."

In the end, however, multigenerational wealth preservation depends very much on the values of the family and how the second generation is brought up. If this generation does not embrace the values that created the wealth to begin with, it is very hard to get to the third.

"Families that have very clear values and have a value that has nothing to do with the wealth, families that are focused on their human capital and using the financial capital to enhance the human capital, have a much greater likelihood of success," says Lagomasino.

AN INDUSTRY IN FLUX

Lagomasino has been around long enough to see wealth management move from a small cottage industry to a source of major revenue for large investment houses and financial services firms. During that time, much has changed — not all of it good for the families using these services. But she sees good things on the horizon, particularly on the supply side.

Lagomasino sees technology advances as game-changers in the industry, with families using new approaches such as robo-advisers and tech-based firms to reduce their need for old-line advisers. The wealth industry is one of the most opaque industries left, and technology can debunk some of the mystery and provide transparency on expenses, such as fees, as well as provide an easy way to compare products.

"The more that happens, the better it will be," says Lagomasino.

Secondly, the industry is seeing a lot of players, such as private banks, exit the market because they believe the risk from a compliance perspective is too high.

"It's already happening in the U.S. and Switzerland, and eventually, they will exit

WE Family Offices by the Numbers

Year founded
2013

Assets under advisement
$6.8 billion

Clients
71 families in the United States and abroad

Average client net worth
$70 million

Personnel
48 staff

Client-to-staff ratio
1 to 1.5 client family to employee ratio

Offices
New York City
and Miami

entire geographies," she predicts. "This means there will be fewer choices when it comes to investment products, as well as less competition among those players that remain."

A third major supply side development is the Labor Department's fiduciary standard rule for retirement accounts, which will require advisers to use a fiduciary suitability standard for their clients.

"They will have to put their client's interests before their firm's," says Lagomasino. "They will have to avoid conflict of interest, provide total disclosure of everything that they are doing, including compensation, etc. I am hoping and praying that it will have the ERISA effect and really clean up and bring to a totally different level of integrity the advice that retail investors get."

On the demand side, Lagomasino thinks her three major supply side predictions will encourage families and individuals to be much more thoughtful, responsible, engaged owners of their own wealth, and really pay attention to whom they hire.

> *"Ted Turner, Donald Trump and Bernie Ebbers are examples of overconcentration of wealth, overleveraging and overspending, respectively."*

"Clients are aware that they need to be a little more engaged, but there's a lot of inertia," she explains. "Because there is so much opaqueness, because some of these things seem very complex, clients are sometimes paralyzed to move. They have become more engaged now than they were 20 years ago, I'll tell you that, but there's a long way to go. That's why we treat the client as the CEO. He's making the decisions, not us. I see families that are very wealthy families that don't have anywhere near the level of knowledge and engagement around their wealth that they could, and I think their wealth would last longer and be much more satisfying to them if they did." ■

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