

THOUGHTS FOR THE WEEK

YEAH, BUT CAN YOU SURVIVE?

February 25, 2022

Longevity is an ideal – a long life; long, meaningful relationships; generational family wealth. There are a few keys: healthy inputs (the food you eat; the friends you make); an appreciation for risk (both taking *and* avoiding); and the ability to consider long-term consequences of actions, not just immediate ones. But above all, longevity requires the ability to survive tough times. Because they inevitably arrive.

Take personal relationships. They are not static, rather always shape-shifting, sometimes bright and inviting, other times cold and distant. Investment is required for relationships to flourish and grow, to achieve longevity. Time is the critical investment, but empathy, listening, selflessness, and patience all play major roles. It's easy to let one or more slip. When things are good it may seem like investment is no longer needed. Or can be put off another day. But without continuous investment durability wanes, the structure of the relationship begins to show cracks. Those cracks can remain hidden for lengthy periods, but eventually every relationship encounters challenges, and if the cracks – the result of under-investment – have become large fissures, exposed by a current challenge, then the relationship can crumble. The foundation is not strong enough to overcome lack of investment. The relationship wasn't built to survive tough times.

Or consider education – a life-long endeavor, another massive time investment. An education is like building a giant latticework – a frame upon which you can continuously hang new information. The latticework acts as a processing and decision-making tree – the time investment into the inputs of the latticework is what increases its power and accuracy. But let that investment lapse and the value of your education erodes, your decision-making skills recede. And when tough times occur, requiring all your decision-making power to be summoned, if your investments in time, bolstering your education, haven't been made, you're unlikely to be able to make the crucial decisions. And your ability to survive (in most cases figuratively) is reduced.

A family's financial foundation can be thought of the same way. Longevity is the goal – our team is privileged to work on behalf of families that have created the potential for generational wealth. But achieving longevity with family wealth is challenging. It requires an ability to survive the tough times. Because tough times will be encountered. A few keys to longevity:

Keep your spending in check – It doesn't matter if you have \$10 million or \$100 million, if your family is spending a high percentage of assets per year, say 6-7%, eventually you're likely to run out of money. There is little science behind sustainable withdrawal rates, as the outcome is impacted by the unknowable future of returns. But 3-4% (ideally less) has shown to be effective in preserving the earnings power of a portfolio. For example, a \$50 million asset base should reasonably support spending in the \$1.5-2.0 million range. The trade-off is obvious: higher spending = less certain outcome.

Plan ahead – We repeat this ad nauseum, build up enough reserves so you can ride out a bad market without having to sell assets at bad prices. You can never fully “insure” against bad scenarios – we can’t rule out a decade-long bear market, for example, although the probability of experiencing one is low. But having enough cash and bonds on hand to ride out 2 to 5 years of bad markets can help better preserve your long-term earnings power and increase your ability to survive.

Have a decision-making framework – The last time you want to build a decision-making framework is during a crisis while emotions are running high. The people responsible for decisions regarding family wealth – parents, siblings, board members, advisors – should frequently review scenario planning. Some examples: How to react if the stock market declines (20%)? When do we replenish cash reserves during an extended downturn? At what point do we need to tighten our belts and cut spending? Discussing when there’s no urgency to act paves the way for a better decision when the urgency does arise.

The path to longevity is a sine wave, filled with peaks and valleys. The peaks are easy – life feels abundant. It’s the cold valleys you need to survive – those times when fear is rising, and safety feels scarce. And surviving those valleys is easier when you’re prepared in advance to deal with them.

Despite the sharp Covid downturn in March of 2020, being an investor over the last decade+ has been relatively easy. Returns have been strong, and risk has been short-lived. Our guess is conditions won’t always be that easy. And preparing for stormy weather (we are getting some now) - even if the 100-year storm never arrives – can go a long way toward ensuring your survival. And if you can survive, then that ideal outcome – longevity – remains within your grasp.

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