

## Adjusting From Wealth Accumulation to Wealth Preservation

In their article "Creating a Goal-Based Wealth Management Allocation Process", Journal of Wealth Management 2008, Ashvin Chhabr and Ravindra Koneru of the Institute for Advanced Study in Princeton along with Lex Zaharoff, formerly of JP Morgan, remind us of what it takes to maintain wealth. Here is an excerpt:

"In researching how wealthy families created their wealth and then how some were able to sustain it while others lost the wealth, we came across the following insight. To create wealth required concentrated risk taking, often magnified through leverage. To sustain it, the better strategy was to diversify and take a diverse portfolio of risks. **This was highlighted through a study of the Forbes 400 (a list of the wealthiest individuals in the U.S.) over a 23 year period. Of the 400 on the list at the beginning of the 23 year period, only 50 remained on the list.** The principal factor in dropping off the list was that they did not change their approach to risk taking and their concentrated wealth did not keep up with increases in the market. *The interesting insight from this study was that of those original 400 who would have sold their concentrated assets at the beginning of the period, paid taxes, and simply invested in the S&P 500 Index would still be on the list today (Zaharoff [2002]).*"

Furthermore:

"Central to this thesis was the underlying observation that strategies for wealth creation and wealth mobility involve leverage and concentration and are inherently different from those of wealth preservation and that a good wealth strategy has to balance these different objectives and strategies."

In other words concentrated risk taking such as holding a lot of employer stock or putting everything you have into the business may pay huge dividends - risk vs. reward. However, once you reach a certain critical mass or enter wealth preservation mode, you need to change your risk taking and diversify your holdings. Like the Forbes study illustrates, what got you to where you are today may not work tomorrow. Timeless advice.



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*Standard & Poor's 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market in general.*

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