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Why Working With A Family Office, May Not Be The Answer For True Wealth

A family office is a private firm of advisors that is outsourced to manage the financial and miscellaneous decisions by an individual or family such as private schooling and household arrangements. A single-family office serves one individual and their family, while a multi-family office serves a few families.

How do they operate?

Every family is unique and therefore there are no two identical family offices. They comprise a team of professionals from multiple disciplines combining asset management, cash management, lifestyle management, and other services.

A form of family education is an important aspect of a family office. This includes educating family members on financial matters and instilling the family values to minimize internal conflicts not only in the present but also in future generations. (Hayes, 2020).

Volume of work and attendance cost should always be considered. Mike Reed, the managing director of the multi-office team RBC Wealth Management London stated that, "…it typically costs about 1 percent of the assets being administered". He then goes on to say that it may be more efficient to focus on essential services, and a third party may then provide further services as needed. (Binnington, n,d).

Some families have a unique constitution and a family council to administer guidelines and boundaries. The main goal is to align interests, this makes it easier for the family to manage its assets and enhance communication and cooperation.

Benefits

●By combining resources, they can gather more wealth to invest and share overhead costs.
●For a long time, the family office would act as a sovereign entity in that there were no governmental regulations as to how they operate. For this reason, the family had autonomous control and design of internal structure and administration. (Smith, 2017).
●A family office guarantees continuity. For example, if older members of the family are aging quickly, they may invest in countries in which younger members live. (KPMG, 2019).

Drawbacks

●Due to this autonomy, they have their own hierarchy system. The office must consider all families' interests and not one, this means that neither family will achieve satisfaction all of the time and those in power may make decisions that may not be in the best interests of the other members.
●Those concerned about privacy and confidentiality may be wary of exposing the family business to outsiders and even other members of the family. Conflict may arise between the families, and this can prove difficult to manage, particularly if one family is more dominant.
●Complex investments mean complex structure. As investments begin to grow and expand through multiple avenues, the structure will be forced to adapt thus making the structure more difficult to handle. (KPMG, 2019).
●However exciting it sounds for families to share investments with other families, in time they will expect increasing returns from their investments, and this will put pressure on growth with the least risk and freedom.

According to Bloomberg (2015), the family office industry is under rigorous inspection and investigation through legislations such as European Commission ANTI-Money Laundering Directive (AMLD). The Economic Co-operation and Development (OECD) are investigating loopholes in the tax environment.

Where there are many different sources of cash and business activity, a family office makes sense. However, in terms of financial assets and cash management, a fiduciary is more appropriate - especially in terms of growing wealth. You as an individual or your immediate family have freedom to make any investments anytime and anywhere, without consulting a board of directors representing multiple families. This means that you can achieve their self-actualized dreams and desires while also making profitable decisions.

Another factor to consider is the legal bond between the outsourced entity and the family. A fiduciary is always legally entitled to the responsibility of safeguarding the client's assets. This makes them more reliable and trustworthy. (Botha, 2020).

Lastly, an individual fiduciary would have a more personal relationship with the family. The family would only have to share their secrets, plans, ideas, with one person rather than a group of strangers.

Sources

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