



## WEALTHY & WISE

# THANE STENNER

## *Staying rich requires different skills than getting rich*

### **Thane Stenner provides his tips on remaining wealthy**

Becoming rich is hard enough. But staying rich - now that takes some serious effort.

Our society seems more interested in the accumulation of wealth than in the safekeeping of it. As a result, we hear infinitely more about the luxuries and advantages of newly created wealth, rather than the accompanying responsibilities, complexities, and challenges.

First among these challenges is the question of wealth management. How should newly liquid multimillionaires keep their wealth safe? In what should they invest? With whom? The answers to these questions can determine the course of an individual's financial health for decades to come.

With that in mind, allow me to review five common "missteps" that newly liquid high-net-worth individuals make. Because the vast majority of new millionaires are former business owners, I'll focus my attention primarily on this group, although the following missteps are by no means exclusive to entrepreneurs.

#### **Assuming business management and portfolio management are the same**

Without exception, the business owners I know are intelligent, highly successful people. They're used to doing things themselves, and doing them well. Such success naturally leads to a "can-do" attitude when it comes to investing.

But as many former entrepreneurs will tell you, managing a multimillion-dollar business and a multimillion-dollar portfolio require different skills, and a much different mindset.

One person who knows the difference is David Bentall, a client and close friend. When he sold Vancouver-based Dominion Construction some 13 years ago, he quickly realized that being a portfolio manager is not the same as being a CEO. "It's a whole different ball game," he told me as we chatted over coffee recently. "Although it can be difficult for an owner to admit that."

Part of the problem, Mr. Bentall believes, is the level of involvement the activities require. "Being a CEO is a full-time job," he explains. "Managing a portfolio of long-term investments

is much more 'hands-off.' Not every owner is used to that."

Instead of trying to manage their portfolios the same way they managed their companies, Mr. Bentall believes owners need to adapt and learn different skills. "Even the most capable CEO can't be an expert investor right out of the gate," he points out. "The trick is to realize the limits of your competency, and build a team that can complement your own skills."

#### **Planning 'paralysis'**

Over the course of my career, I've met several business owners who are meticulous, detail-oriented managers used to analyzing complex business decisions. When it comes time to manage their portfolios, they take the same approach: they pore over the details of investment reports and tax strategies, the legalities of trusts and estates, and so on. The result is often lengthy delays and half-implemented strategies. This can expose the portfolio to unintended risks.

Don't let planning details prevent you from managing your wealth. In my experience, action is almost always preferable to "planning paralysis."

#### **Emotional attachment to certain investments**

While concentrating one's portfolio in a single asset can be an excellent way to build wealth, it is rarely a good way to preserve wealth.

It doesn't matter what the asset is - a large block of company stock, a substantial real estate portfolio, a multigenerational family business - when it comes time to convert business wealth into liquid wealth, it's best to put emotions aside and diversify the portfolio among 10 to 12 top-quality portfolio managers with a variety of mandates (assuming \$10-million or more in liquid assets).

#### **Thinking the same way about risk**

Being in business requires a certain level of comfort with risk. Most owners I know are untroubled by the notion of taking calculated business risks in the hope of future reward.

The transition from operational wealth to liquid wealth requires a shift in thinking. Building wealth should no longer be the primary goal. Securing wealth should be. That's not to say the high-net-worth portfolio can't be geared for growth. But growth should be tempered by an objective assessment of whether the accompanying risk is really necessary to achieve long-term goals. In my experience, most extreme-risk, extreme-return opportunities don't belong in the high-net-worth portfolio.

#### **Not realizing that even the wealthy can outlive their capital**

Want to know the secret to staying rich? Control your spending. It doesn't matter whether you have \$10-million, \$100-million or more: if you're not paying attention to how much you're spending, you stand a significant chance of burning through your capital and reducing your lifestyle over the long term.

In our practice, we suggest an annual 3- to 4-per-cent pre-tax withdrawal rate of portfolio value as a reasonable spending rate. We might adjust that slightly according to the client's age and the size of their portfolio. Yes, our target comes as a surprise to some. But this conservative approach is often the best strategy for ensuring a newly minted millionaire actually stays that way.

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