

# On My Bookshelf: The Cycle of the Gift

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## Twenty million dollars was an extreme amount of wealth in 1980. How did your family go through it in one generation and to what do you attribute your family's failure?

I have been searching for the answer to this question for 30 years, but my reply to this question while recently serving on a panel about the dangers of wealth was simple. "Our family never discussed our wealth and none of the heirs were prepared for what they inherited." While faster than most, the dissipation of my family's wealth is unfortunately the rule today rather than the exception.

I believe that *The Cycle of the Gift*, by James Hughes, Susan Massenzio and Keith Whitaker, gives wealthy families valuable insights that will greatly increase the probability of successful wealth transfers. The authors believe in and advocate for the following:



### Importance of Work

One of the best gifts that families can give their children is the gift of meaningful work internships or new work experiences. Kids today have it too easy. Young people need to struggle in order to develop skills of their own. Over time, many will find meaning through work while being in service to others.



### Advice and Wisdom

Many people wait until death to transfer assets. This could be a mistake, since parents can give one of their greatest gifts during life, which is the gift of counsel and advice. Small gifts made with a stated intention during life can lead to good financial management skills. In addition, they can lead to the development of moderation and patience, that will be necessary if larger gifts are to be made.



### Transferring Values and Learning Important Skills Through Philanthropy

Values are learned through the process of making decisions together and giving to

others. Families should consider using donor-advised funds or private foundations as teaching tools. These entities get younger family members involved in the grant making process, which allows them to learn how older generations make decisions and strive to make an impact by giving back to the community. Children and grandchildren can serve on various committees where they acquire valuable investment management and administrative skills.



### **Family Banks for the Development of Entrepreneurial Skills**

Families should consider forming family banks, which are entities designed to promote the family's long-term happiness. At its heart, the family bank is a structure designed to teach. Individuals who want to start businesses must prepare business plans that are presented to board members comprising family members and advisors. High-risk loans, where the opportunity to learn exists, are acceptable requests. In the event that a loan is not repaid, a negative tax consequence for the borrower occurs. Even in situations of failure, valuable lessons and wisdom are hopefully gained.



### **The Importance of the Correct Trustee**

Choosing the correct trustee is one of the most important decisions a family can make. Too often, the trust relationship encourages dependency rather than independence. As a result, it is important to find a trustee that will serve as a mentor and that is committed to helping the beneficiaries mature.



### **A Road Map for the Family of Wealth**

*The Cycle of the Gift* will always be on my bookshelf, as it provides a valuable road map for families that are worried about the impact of their wealth not only on their immediate family but also on future generations.

I firmly believe that the advice presented in this book would have better prepared my family for the wealth they inherited and would have greatly improved the odds of a successful transfer.

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