

SUDDEN WEALTH

Managing the Transition



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Sudden Wealth

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The Golden Touch

Many people think of sudden wealth as a recent phenomenon, something that comes from internet company IPOs. But an ancient Greek myth describes the first case. King Midas of Phrygia lived well, but he loved gold and couldn't get enough. When the gods granted him a wish, he answered immediately, "Let anything I touch turn to gold." Midas reveled in his new power for a while, turning everyday flowers, fruit, and bowls into priceless works of gold.

But before long he realized his gift was a curse. He couldn't eat; his food broke his teeth as he bit into it. His favorite wine was no tastier than a rock. He couldn't sleep in his now golden bed. His dog turned to gold when he petted it. And, worst of all, his darling daughter ran to embrace him and became a golden statue in his arms. He felt cut off from everything he valued in life.

Sudden money can have a profound effect on the lives of business owners, the children of successful parents, and spouses who marry into wealthy families. Then there are those who win the lottery or, more painfully, receive a large insurance settlement. In all these cases, we find elements of the Midas myth:

- Wealth can bring both joy and pain.
- It can enrich us yet cut us off from what is precious.
- It is often not what we expect.
- It can "turn up the volume" on underlying issues.

In the midst of the late 1990s dot.com boom, psychologists coined the term "Sudden Wealth Syndrome" to describe the set of symptoms and behaviors often experienced by people adjusting to greatly increased wealth. Sudden wealth can be experienced in a variety of ways. How much money it takes to stimulate strong reactions is specific to the individual. For some it could be the sale of a business for \$100 million. For others it could be living with student loans and more debt than assets, then marrying into a family with \$10 million and the ability to erase your debts.

As the story of Midas shows, receiving sudden money, a term adopted by Susan Bradley in her 2000 book, *Sudden Money: Managing a Financial Windfall*,¹ is not always positive. Research has highlighted that many business owners who sold their businesses reported in the years after the sale that they experienced more emotional losses than they anticipated, sometimes regretting the sale.

Lottery winners commonly report running out of money, feeling alienated from family and friends, and becoming depressed relatively soon after receiving their winnings. And experience shows that inheritors and new trust beneficiaries often go through a painful and sometimes destructive period of adjustment to their wealth.

The Immigrant Experience

The psychologist Jim Grubman has written for many years about what he describes as the experience of immigration to the “Land of Wealth.”² In Dr. Grubman’s experience, clients find it helpful to think about great wealth as a cultural experience, as if one is now living in a new Land of Wealth. Within that land we find both newcomers — the “immigrants” — and the citizens born and raised there — the “natives.”

Sudden wealth affects immigrants and natives in similar ways and in vastly different ways. Immigrants to the Land of Wealth face an economic transition and all its associated challenges, just as geographic immigrants do. Do they try to learn fast and blend into the native culture? Or do they cling to the ways of their former country? If they assimilate, how much do they assimilate? Do they try to blend cultures or do they compartmentalize — keeping the old and new separate in their lives? All these questions are more pressing when children are involved. In that case, these “immigrants” must somehow raise their children as “natives” in a culture that is new to the whole family.

Immigrants come to sudden money in a variety of ways, sometimes connected directly to the wealth holders’ own efforts, and sometimes not. These efforts may take place in the arena of business, sports, or entertainment. Sports and entertainment figures sometimes show most publicly the double-edged nature of sudden wealth. Whether for a famous golf player or a successful movie star, the money often comes in a series of large hits. Each can prove deeply exhilarating as well as disorienting. And, importantly, each might be the last. These wealth holders experience a combination of repeated disorientation and anxiety about the future, an experience that is connected to the fact that few sports or

entertainment figures turn their wealth into a multi-generational enterprise. And they are not alone.

We’ll focus here primarily on business success, since it is the most common cause of significant sudden wealth. One advantage of the money coming through your own effort is that adjustment to the rewards is often easier and less foreign — the wealth-holder feels more deserving of the funds. Successful business people may also believe they can make more money in the future. This sense of capability can help people explore new business opportunities or spend time on philanthropic projects.

Sudden wealth in business comes in a variety of ways, usually in the form of liquidity events:

- The sale of the entire business to a competitor or larger corporation
- Taking a company public
- A recapitalization or refinancing
- Large stock dividends
- A partial sale or spin-off

Sometimes the growth of a company to these points takes a long time. Sometimes it happens quickly. People may experience multiple liquidity events along the path to great wealth, but the first one or two may be the most disorienting.

Liquidity events and the impact of sudden wealth commonly affect older wealth-creators who are planning for succession in their business. This is often the first time that a family draws money out of the business, in the course of a change of ownership and management, and it can prove unsettling for the wealth-creator. Someone who has spent his or her life building a business must now grapple with two large changes: the real gain of investable wealth (as opposed to illiquid wealth), and the real or perceived loss of authority, identity, and purpose.

This loss may be particularly difficult for entrepreneurs who find motivation in a highly personal dream. When you achieve the dream, what’s left? For example, one set of siblings who worked in a family business together and then sold it, now describe themselves as, “retired, in

their 30s, and our mom says she's on permanent vacation." These labels are tongue-in-cheek, but the humor hides a serious concern. It may not feel quite right to be retired at 35, or on permanent vacation. This sense of confusion becomes even more pressing when the entrepreneur has young children: "Am I to tell my kids that I'm retired at 35, and how will that affect their motivation toward work?"

Often, the skills needed to build or run a business over decades — such as taking charge, directing and controlling activities, and entrepreneurial risk taking — can be at odds with the skills it takes to wisely steward wealth in the capital markets. A common misperception is that those who are skilled at creating a windfall will also be skilled at investing it. This is often not the case.

Sudden wealth is different for another class of immigrants — those who make the transition not through business and work but through marriage.

A spouse may marry into a high-net-worth family before the wealth completely arrives. In this case, the spouse will experience the eventual liquidity events differently than the wealth-creator. He or she may feel less control over the experience and more confused about what it all means. The liquidity event may look like a great blessing, but it can also raise anxieties about how all this new money may change the marriage.

Each spouse may also need to go through a period of adjusting to the experience of having more money to spend, particularly if he or she has not come from a family with wealth or wasn't involved in the business. Many people suddenly released from financial limits experience what's sometimes referred to as the "rampart spending" of the newly wealthy. Their spending goes up suddenly, then continues for a while, then gradually ratchets down again closer to the prior level of personal spending, like the ramparts on a castle. Later there may be another burst of spending. This is normal in the initial period of adjustment to new money. The larger house, the expensive car, the home entertainment system, luxury goods for family and friends — these are some typical purchases. The key is to pay attention to the process and find your way back to what feels comfortable to you personally and within your marriage. More serious

things to watch for are whether spending was a problem before the money arrived, or whether one or both spouses lack basic skills related to keeping track of, saving, and spending money.

Another group of immigrants to the Land of Wealth may experience sudden wealth through other means not based on their own talents or business efforts. Some are positive experiences, like winning a lottery or sweepstakes. Others, such as receiving a large windfall from an insurance settlement, may be associated with a painful loss. In each of these cases, it is important to realize that your emotional responses and reactions require just as much attention as the financial matters.

As with geographic immigrants to the United States, economic immigrants to the Land of Wealth often talk about anticipating release from the stresses of their lives, a great sense of freedom: freedom to take trips, freedom to spend on family and friends as they wish, freedom from the anxiety about bills or debts that most people feel, freedom from a stressful job. What is rarely anticipated is that this freedom often brings with it something else. Like all journeys to new places, there are things you must leave behind. With new wealth there often comes a sense of loss: loss of familiar connections and relationships, loss of longstanding motivations and purpose, loss of identity and meaning, loss of life's anchors. These losses do not need to be permanent. But they are real. Arrival at a place in life of luxury and privilege can be wonderful, but sometimes we discover how much we miss our lives left behind.

The Inheritor's Experience

One might think that the experience of sudden wealth can't happen to those born and raised with wealth — the "natives" to wealth. But while some people may be born into families worth millions of dollars, no one is born thinking of owning millions of dollars. Overlooking the power of sudden wealth on wealth's native citizens is a mistake many ultra-high-net-worth families make.

Inheritors raised with wealth usually experience sudden money in a variety of forms, akin to the liquidity events of a business-owning family:

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- Being suddenly informed at age 21 of ownership of the contents of a custodial account containing hundreds of thousands of dollars
 - A trust you didn't know about is starting to make required income distributions at ages 21, 25, or later
 - Receiving a large outright gift from a parent or grandparent
 - Receiving large principal distributions from a trust, say, at ages 25, 30, and 35
 - Receiving a large inheritance, outright or in trust, from the death of a relative

Transferring ownership of an UTMA³ custodial account or introducing a child to a trust is usually, for parents, a time of nervous excitement and concern. Though they may feel generous about the transfer, they may feel anxious about what the child will do with the money. Their assumption is that the child will be ecstatic at receiving the money and will start to spend it with abandon. Parents are often surprised, then, when children respond with disorientation, confusion, avoidance, and even anger. In reality, many young inheritors suddenly faced with a deluge of cash, experience the event with great shock, since they are emotionally unprepared for the responsibility and the potential for change in their relationships.

This is ironically an unrecognized point of similarity between parents and children of wealth. A young person's coming into an inheritance or a trust is, by itself, not uniformly positive or negative. Just as with the sale of a business, everything depends on personal preparation and a process for adjusting to the change. Parents or grandparents need to recognize that the children may be going through many of the same things they themselves went through when acquiring the wealth in the first place. This is a chance for the generations to come together — to understand and communicate — rather than to be at odds.

For example, when a child first begins to receive trust income distributions, or receives a large principal distribution, it is normal for him or her to feel confused and to begin to question existing relationships. Should I still live where I've been living, if I don't have to? What should I do, if I don't have to work? Are my friends interested in me

or my money? Who am I, apart from the money? These questions are most painful when the young inheritor has had little advance notice that the money is coming and little guidance on how to prepare emotionally.

Young adults who come into an inheritance can go through the same experience of rampart spending as their parents, as they get used to having more money under their own control. This is a place where parents and advisors will want to be particularly careful. Often a child going through the initial burst of spending may quickly be labeled as spoiled or irresponsible, when in truth he or she was just trying something out and adjusting to their circumstances. Sometimes there is a double standard — it's acceptable for parents to splurge after the sale of their business, but let their 25-year-old do the same with the first trust distribution and the criticisms start to fly. Immediately labeling a young inheritor as spoiled during this adjustment period can lead to heavy-handed treatment and can harm not only relationships but also the child's own growth and identity for years to come.

A young person's receipt of sudden wealth also depends on what the relationship is like between the beneficiary and the family, and the extent to which the young inheritor knows about the money prior to receiving it. Receiving an inheritance from a parent with whom you have been in constant conflict, who you felt used money mostly for control, or who seemed to substitute money for love, may bring feelings of anger, sadness, guilt, and resentment along with the cash. These feelings can taint the money and lead to a variety of unhappy reactions as well as unhealthy behaviors, including spending it all or giving it away to alleviate the pain.

The most common problem, though, is that receiving an inheritance unprepared can leave one feeling shocked, wondering "What do I do now?" and wishing for answers where none are available. This is especially true for trust distributions. Many families set up trusts for minors and then, out of fear, refuse to inform beneficiaries about the trust until they absolutely have to, for instance, when the beneficiary turns a certain age upon which the trust distributions must begin. These ages can be as late as 35 or 40 years of age.

Sadly, in such cases, parental fears can turn out to be self-fulfilling. Receiving large distributions with no emotional or financial preparation may upset a beneficiary's work habits, sense of purpose, and connections with friends and close relationships. It may also leave the beneficiary justifiably asking, "Why didn't I know about this before? Why didn't you trust me enough to talk to me about this? How am I supposed to handle this out of the blue?"

One young beneficiary described the experience this way: "It feels like you thought you were a citizen of one country, and then you wake up one day and they tell you that everything you thought you knew is wrong and you're actually a citizen of this other country. And you're supposed to be happy that you've been in the dark all this time." Not preparing beneficiaries can add a level of anger to the natural disorientation and confusion that sudden wealth brings young inheritors. At Abbot Downing, our partnership with clients includes introducing inheritors to their future wealth in ways that are proactive, incremental, and age-appropriate.

A Chute of Emotions

Whether an immigrant or native in the Land of Wealth, there are certain common emotional aspects of sudden wealth. The first step in responding to these involves identifying them accurately.

Susan Bradley describes the inner experience of sudden money as resembling a "chute of emotions." The image conjures up a long, twisting, dark tube, sliding downwards. You're hurtling along. You get bounced one way and then another. Who knows where you'll fly out? Thankfully, we do know, generally, where this chute goes. The experience will differ in some ways for each individual, but we can predict the overall range of emotions. Some of the most likely feelings that accompany sudden money include:

- Numbness, fear, isolation
- Insecurity, distrust of others
- Unworthiness, resentment
- Exuberance
- Guilt, grief, revulsion

Perhaps the most immediate reaction is the numbness that accompanies any shock, as the body and mind get overwhelmed in adjusting to the change. That numbness, however, can soon turn to fear: "Am I going to lose the money? What's going to happen now? Will I change? Will others change?" For many, that fear can damage relationships by leading to isolation, shutting oneself off from those who may be closest or most familiar.

It is one of the ironies of great fortune that it can cause us to waste our resources and to cut ourselves off from help. Many new wealth holders pull back from their former friends, advisors, and family members. It is certainly true that new wealth (or newly visible wealth) can attract hangers-on, and there is often a deluge of advice, recommendations, new business opportunities, and requests for loans and gifts. A healthy skepticism at this stage can be appropriately protective. But these feelings can also keep one from listening to good advice when it comes from capable advisors or truly understanding friends. Someone experiencing sudden wealth needs to watch out for withdrawing from the wisdom, care, and compassion of trusted associates.

It may seem odd that people with sudden wealth may feel unworthy, guilty, and even resentful of their fortune. Sometimes these feelings resemble survivors' guilt: "Why did I profit so greatly when others with just as much talent have not?" Other times, wealth holders focus on the losses that have accompanied the gain: "Yes, I've got the cash, but I no longer have my company (or my career, or my dad)." These are powerful emotions that need exploration and resolution before wealth holders can really make their good fortune their own.

The exuberance of new wealth may be wonderful, but when combined with poor money skills it can lead to disastrous overspending. The same is the case for those who are so angered by how they received the money that they struggle to accept it as good fortune, such as an inheritance from a person with whom there was much unresolved conflict. One young client received a \$5 million trust distribution not only with no advance notice, but from a father who had abandoned the family. It made her feel completely out of place, driving a wedge between her and her friends and her

spouse. She felt so out of her own skin that she did everything she could to spend, give away, and, basically, burn through the cash. In about two years she was back to where she started. Only then did she realize that her feelings of anger had robbed her and her young children of a financial cushion for the future.

The idea of a chute of emotions underscores the fact that strong reactions to sudden wealth are not just about the money; there are powerful feelings that people undergo related to wealth. Many people receiving sudden wealth find it helpful to have someone with whom to talk about their thoughts and feelings. Finding someone who listens, cares, and can stand by you through this process can make a significant difference.

Common Responses to Sudden Wealth

The danger while in a chute of emotions is not the feeling but the doing. This is a hard point for most people to grasp. Once the money is in hand, they feel they should do something with it, maybe many things at once. The key is to stop and reflect — not about what to do, but about what to think about. To begin with, recipients of sudden wealth may find it most helpful to enter what Susan Bradley calls a “decision-free zone.” This zone is not just for decisions about investing, planning, or spending. It is for thinking through what needs to be considered — both now and later. Bradley recommends doing several things while in your decision-free zone:

- Stay in control
- Seek help and learning
- Determine what’s immediately needed and what can be delayed
- Make understanding tax consequences a priority
- Delay gifts
- Track cash flow
- Work through emotions

Creation of a decision-free zone gives the recipient of sudden money breathing space. It is partly protective. Far too often, people with new access to funds feel that they must do something with the money. That feeling leads to their giving up control, giving away too much money, or ramping

up spending and losing touch with their cash flow. All these can come back to haunt you.

More positively, a decision-free zone offers a place for reflection and learning. Even for sophisticated wealth holders, there’s a lot to reflect upon and a lot to learn. While in this zone it’s ok to tell people looking for money or offering inexperienced advice: “I care about you and I want to hear your proposal, but right now I’m working through my priorities, and I need to do that before I can consider other people’s ideas.”

At Abbot Downing, we recommend that people facing sudden wealth also take a number of additional steps:

- Park your assets. Consider strategies for protecting the bulk of your new wealth for at least a year. By doing so you will gain breathing space to think about what to do next. There is no prize for putting new funds to work the fastest. Take time to consider your options in relationship to your goals.
- Spend on memories more than material possessions. Your first inclination may be to buy a new house or car. It can be valuable to hold off on big purchases for six months to a year while you consider your priorities. But do enjoy your money. Try taking a family vacation, if that works for your family. Use your funds to enjoy some time together, take a break, and start your reflection process. Get used to living differently gradually.
- Build your team. Take some time to assemble a team of advisors who will be right for you and your family. You do need to connect with financial, tax, estate, and risk management professionals, and with people who can help you with the emotional and familial aspects of sudden wealth. It’s important to select advisors with whom you can discuss your experience, and who will respect your need for time to think through your new circumstances.
- Talk and learn. You’re moving to, or taking full citizenship in, a new country. If you were moving geographically, you’d take the time to read guidebooks and talk with people who’ve been to the place. Talk with other wealth-holders. Read white papers or other resources, such as those

listed at the end of this white paper. Share what you learn with your family and think through how you would like to integrate your values with new opportunities now available to you.

How long should you stay in this process of reflection? It depends. It will vary with the magnitude of the change in your life, on the range of emotions you're feeling, and on your own knowledge, skills, and inclinations. Maybe it lasts six months, maybe a year. During this time you will need to make some decisions relating to tax planning. But remember the basics — don't give up control, don't give up the money, focus on your priorities, and learn, both about the money and yourself. In this way, sudden wealth can open a path not just to luxuries, but to self-understanding and fulfillment.

Implementing Your Plan

This paper has described ways in which sudden wealth affects a wide variety of people. It's not something that happens only to lottery winners. It can happen to couples who have spent their lives building a business, a chief executive receiving multimillion dollar dividends or vested options, a middle-class young man newly married into a family of wealth, a newly divorced woman, a 25-year-old who is receiving her first trust distribution, or a middle-aged inheritor who now has more money than he ever dreamed about.

We have reviewed a number of strategies to use when faced with sudden wealth. They include:

- Locate your own experience within the continuum from immigration to being a native of wealth.
- Recognize the challenges you will face as you adapt to wealth.
- Respect the chute of emotion, knowing that it will contain twists and turns. Let it teach you about yourself.
- Stay in a decision-free zone as long as needed to develop confidence in your decision making.

Strong reactions to sudden wealth will gradually dissipate. Trust yourself and the process. You'll soon be able to make confident decisions that

reflect your priorities in collaboration with trusted advisors.

Additional Resources

Brill, Marla. *Windfall: Managing Unexpected Money So It Doesn't Manage You*. Alpha Books, 2001.

Domini, Amy L., Pearne, Dennis, and Rich, Sharon Lee. *The Challenges of Wealth*. New York: Dow Jones, 1988.

National Endowment for Financial Education:
www.nefe.org

Meaning, Meaning, & Choices Institute:
www.mmcinstitute.com

Sudden Money Institute:
www.suddenmoney.com

Endnotes

¹ Bradley, Susan. *Sudden Money: Managing a Financial Windfall*. New York: Wiley, 2000.

² Grubman, James. *Strangers in Paradise: How Families Adapt to Wealth Across Generations*. FamilyWealth Consulting, 2013.

³ The Uniform Transfer to Minors Act (UTMA) is a type of custodial account set up by an adult on behalf of a minor that provides a vehicle for the minor to own securities without the creation of a trust.



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