



Dealing With Financial Windfalls

A financial windfall is any distribution of financial assets that leaves the recipient with dramatically greater liquid wealth than they had been accustomed to managing before the distribution. The windfall may be the result of a major inheritance, the sale of a business or property, or the proceeds of divorce or insurance settlements.

Windfalls can also come from sadder circumstances, such as when someone becomes a widow or widower. In this case, the responsibility to look after all the financial assets that were previously managed by the deceased can be daunting. A happier form of windfall is the sudden ascent to riches enjoyed by professional athletes, entertainers and artists. And the most publicized windfall of all — but hardly the most frequent — is the lottery winner.

The majority of windfall recipients need a financial advisor with good instincts, good ears, a solid network of compatible professionals, a well-defined approach to financial planning and investment management, and a lot of patience.

Many windfall recipients are often carrying around more baggage than just financial assets. There are often important psychological and sociological dynamics taking place in their lives. Stephen Goldbart, a California-based psychologist, coined the term Sudden

Wealth Syndrome (SWS) in the 1990s to describe the psychological challenges faced by the newly rich entrepreneurs of Silicon Valley as a result of their sudden success and wealth.

He observed many of these individuals suffering from a variety of stress-related disorders, all linked to the responsibility of having to deal with the dramatic increases in their net worth. Dr. Goldbart determined that people with SWS exhibited symptoms such as paranoid thinking, fear of loss of control, excessive guilt and sleep problems.

Windfall recipients also face interpersonal pressures. Family members, work associates, friends (both of the current and long-lost varieties) may approach them for handouts, or become jealous. Long-standing family and social relationships may be tested as the windfall recipient moves a few rungs higher up the economic ladder.

How we help windfall recipients

With most of our clients the best course of action is to proceed slowly and educate every step of the way. Once trust is eventually established, clients are able to respond independently to our advice, and the relationship can move forward.

The best piece of advice we can give to a new windfall recipient is to stop and do nothing. Clients should not make any consequential decisions until they have

had time to absorb their new circumstances.

This advice applies to spending and giving money away as much as it does to investing the newly acquired assets.

There is no reason to do anything quickly with the large sums of money, especially when the recipient is likely under duress, grieving or fending off those looking for a piece of the new pie. The best place for the money is in short-term savings vehicles, where it should be left until a proper plan is ready to direct how the money is to be allocated and deployed.

The windfall recipient usually asks us to assume the central planning advisor role for them. In becoming this advisor, we strive to educate, coordinate, evaluate and then allocate as we create and deploy a comprehensive financial plan for our client.

1. Educate

Our best clients are informed clients. As we endeavour to learn as much as we can about them, we strive to help them to understand the tools and methodologies we use during our engagement. At the same time, we probe extensively to ascertain:

- their knowledge base of financial and wealth management
- their real hopes and dreams for themselves and for those whom they care for the most
- their short, medium, and long-term goals and cash needs
- what kind of pressures they face from friends, family, health, business, etc.
- the names of the individuals and organizations they have been dealing with to date

- who else they turn to for reassurance when making decisions
- what kind of legacy they would like to leave in this world

2. Coordinate

Most windfall recipients need better advice — and more of it — than before. As noted above, a financial advisor with a solid network of compatible professionals can count on this network's assistance in building and executing the financial plan. We engage the following colleagues as required:

- Private banker
- Estate planning/insurance specialist
- High-net-worth financial planning specialist
- Trust department professional
- Accountants
- Lawyers for general, family and/or tax and estate matters
- General insurance
- Psychologist or social worker
- Real estate broker
- Eldercare specialist
- Philanthropy consultant

Under our leadership, these professionals meld into a dedicated, coordinated resource for the windfall recipient.

3. Evaluate

Using the financial input derived from our research and coupled with the recommendations of our expert colleagues, we are in a position to complete our financial projections and forecasts, and evaluate whether the output generated can indeed meet the goals and needs of our windfall recipient.

Our approach includes specific suggestions on how the client should use his or her financial assets, and a list of recommended professional services. We endeavour to create a financial approach that maximizes the potential return in each risk category while minimizing the debilitating impact of income taxes wherever possible.

4. Allocate

Finally, we deploy the recommendations, a lot of hand-holding takes place during the deployment, and we insist on getting regular feedback from our clients. We continue to educate them, coordinate matters with the compatible professionals, and review our work to ensure that our client is on track to achieve all their goals and see their hopes and dreams come to reality.

Final thoughts

Most investment accounts grow organically from investment returns and regular additions to the portfolio. Unless dramatic changes have taken place in clients' lives (or in market opportunities, tax laws and other external areas), most financial advice builds on advice given in the past. The advice that a windfall recipient needs includes all the suggestions that an advisor provides everyday clients, as well as specific advice that relates to the windfall and the recipient.

Most clients have built their wealth incrementally, and have grown accustomed to each step-up in their net worth gracefully, as they have more time to absorb the gradual increase in their financial assets. What distinguishes the windfall client from the ordinary client is the sudden increase in their asset base and perhaps with that, their view of themselves and their world.

As financial advisors, we can help them marshal these sudden changes to provide a comprehensive, systematic and sensitive way for them to deal with their new reality.

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