THE FORGOTTEN ACCOUNT

Situation:

"Derek" and his wife "Monique" are very humble people. After meeting at Stanford they built their own company in the software space. Partners in business, as in life. After selling the company for a very significant sum they continued to raise their three young children in the same modest home they had bought while paying off student loans, albeit now mortgage-free, and they still drove a minivan and a sedan. There was no visible sign of what had amounted to a significant fortune. They did not want to appear conspicuous in their spending or change the dynamics with their neighbors and friends.

This same modesty kept them from engaging a sophisticated financial advisor. Monique had an old friend from high school who had been their broker for years – a pleasant and capable professional who put more and more of their money to work in his large national firm's cookie-cutter strategies. Monique and Derek privately worried they were missing out on best practices but they didn't want to rock the boat with their friend and didn't want to be perceived to be "needy" by asking for more options.

While their core values remained unchanged their life began to get more complex. Derek launched a new venture with a friend in a nearby city. After a year of grueling commuting he purchased a city apartment to use three days a week. Around the same time his parents – first-generation immigrants who built a wonderful life for their family – wanted to retire to Santa Barbara. Derek and Monique decided to buy them a true dream home, with the porch, pool and palm trees, to serve as the perfect setting for their golden years. Derek and Monique decided to retain ownership of the property allowing the parents to live rent-free as long as they liked. And, they began investing directly into companies and funds run by friends and acquaintances as a way to diversify away from the lackluster performance they received from big bank mutual funds. They did the work themselves and took advantage of their excellent professional network.

It all worked pretty well for a while... that is, until the IRS audit.

This is always a stressful experience but Derek and Monique found it doubly so because it highlighted how disorganized their financial lives had become. The straw that broke the camel's back was when their accountant called to ask about income from a specific investment in a private equity fund and Derek realized that he had completely forgotten about this fund – he never entered it on his Excel spreadsheet and had literally forgotten the account existed. Reflecting on the fact that the value of this misplaced investment was about half of what they had originally paid for their home he realized something had to give.

Solution:

Fortunately, a mutual friend introduced the family to our firm. Moving quickly and decisively, Monique moved the bulk of their liquid assets to our care and in the course of onboarding these assets we also conducted a thorough analysis of their scattered private equity holdings – organizing everything into a clear and digestible report.

We learned they had a Will but it was a decade out of date. It was not at all reflecting their current situation. So we began an estate planning process and made

some very specific recommendations to Derek around planning for the future exit from his new endeavor.

We reworked their portfolio according to our firm's best thinking – tailoring a highly customized and differentiated portfolio to help meet their long-term goals. Most importantly, we gave them full visibility into all of their assets providing the comfort of knowing everything was accounted for and being managed appropriately.

Derek's second business was nearly as successful as the first. By the time that liquidity event occurred we had sophisticated planning in place. It included a Charitable Remainder Trust, which reduced the tax impact of the sale and provided a vehicle for the family's growing interest in philanthropy. Around this time the family asked us to help with a number of other things like, paying some of the bills associated with the Santa Barbara property and pricing private aviation options to make it easier for them to visit his parents during Covid-19.

Outcome:

In one meeting with our team, marveling at the level of organization of his financial life, Derek said "oh boy, I never thought I would basically have a family office."

One of our colleagues reassuringly replied: "Derek, you do family. We'll do office."

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