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Protecting Family Wealth In Tough Times

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30 April 2020

The global pandemic and its associated economic impact is important for all people and will have a number of very different effects. For high net worth families, it will hit investments in some areas and create new opportunities (medical technology, treatments) in others. Families' discussions concerning legacy, succession, asset transfer, values and goals take on an added edge in these fraught times.

This publication has already carried articles about how single family offices, for example, are affected and what sort steps they are taking. , with which WealthBriefing is exclusive media partner, has produced evidence about SFOs' actions here and here. (To register for the Highworth database, look here.)

To take a look at family wealth issues from a slightly different angle is the law firm . Three of its figures have produced an article covering the terrain. The authors are Rosalyn Breedy, partner, corporate funds financial services; Matt Braithwaite, partner, private client, Rebecca Longshaw, solicitor, private client, Wedlake Bell LLP. (Breedy is a member of this news service's editorial advisory board.)

The editors are pleased to share these views; the usual editorial disclaimers apply. To enter the conversation, email tom.burroughes@wealthbriefing.com or jackie.bennion@clearviewpublishing.com

Charles Dickens' line "it was the best of times, it was the worst of times" is often quoted but it seems particularly relevant to family offices in respect of the current investment market in the wake of the COVID-19 pandemic.

What we can say is that we are no longer in "usual times" and family offices need to be taking steps to preserve family wealth and mitigate their capital risks. There is still scope for investors to make money and do good in the world, however, provided that the right investment strategy is implemented and followed.

In recent years stable equity stocks with dependable dividend yields have provided a reliable way of preserving family wealth. However, this investment strategy is only viable in a productive bull economy, and the current bearish market calls for a re-assessment of equity investments. Sadly, many companies will not have a future as we adapt to a new way of living during and after the COVID-19 pandemic. Others will make it through the crisis but will have to make significant cuts to their yields in order to do so.

Investors need to determine what the true nature of their underlying investments are and, if they are in those industries most likely to suffer (such as travel and retail), take steps to stem their potential losses. Investments in steady industries can be maintained to preserve current wealth. The knock to markets caused by COVID-19 is a prompt for investors to re-assess what constitutes a 'balanced' portfolio.

Family offices considering making investments in a bearish market would be well-advised to undertake particularly thorough and probing corporate due diligence before making any new investments. As Warren Buffet is quoted as saying, "it's only when the tide goes out that you discover who's been swimming naked". Take, for example, NMC Health, the FTSE 100 firm which recently discovered that it has more than $2.9 billion of debt of which its board was previously unaware. (1)

This need for interrogation and forensic research is perhaps particularly acute in respect of internet stocks that have boomed more recently. Investors should be aware of the cautionary tale of mistaken investments at the end of March in Zoom Technologies Inc. Investors had confused that entity (which has the ticker "ZOOM") with the virtual-meeting company Zoom Video Communications Inc. (with the ticker "ZM"), which has seen a surge in demand as people find new ways to connect while in lockdown. The US Securities and Exchange Commission had to suspend trading in Zoom Technologies as a result of the confusion and spike in demand for shares.

In order to safeguard investments and yield in these unprecedented circumstances, family office investors should look beneath the bonnet and address a number of issues including:

-- Investment suitability - family offices are often classified as professional investors and can find themselves invested in investments that carry risks that they may not have appreciated;
-- History – family offices often develop from investment in organisations that were perhaps once family businesses but their suitability may now be in doubt. Careful planning and advice is needed to ensure that any decision to move away from these investments does not meet with hostility from family members;
-- Board structure and experience – does the board comprise the right people for the job; how did it perform in the previous recession?
-- Governance – is this embraced beyond a tick-box culture?
-- Level of debt and leverage;
-- Underlying assets, including intellectual property;
-- Adequate due diligence; and
-- Reputational risk and the view of the family.

Finally, family offices should keep wealth holding structures under review with their advisors. In taking the steps that they deem necessary to protect their populations from the myriad threats posed by COVID-19, governments are racking up significant costs and these will need to be covered over the long term. It is therefore not unreasonable to expect tax changes, potentially targeted at the better off in society.

This is a chance for those with substantial resources, such as family offices, to make a real difference to the world, if they have not already done so.

Footnotes:
1, Source FT March 12 2020 The Editorial Board Christopher Pike Bloomberg