Family Wealth

Spending Time On “Sudden Wealth”

In this white paper

The Golden Touch

Most 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 too long he realized that 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 else he valued in life.

Many people have gone through the roller-coaster of elation and grief that afflicted King Midas. Sudden money can play a big role in the lives of traditional business owners, the children of successful parents, and spouses who marry in to wealthy families, not to mention people who win the lottery or, more painfully, receive a large insurance settlement. In all these cases, we find the elements of 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.

In the midst of the dot.com boom, psychologists coined the term "Sudden Wealth Syndrome" (or SWS) to describe the set of symptoms and behaviors often experienced by people adjusting to greatly increased wealth. Sudden wealth can take many different shapes and sizes. There's no set amount to qualify. "How much money it takes to stimulate SWS is very personal to the individual," notes Dr. Keith Whitaker, Head of Family Dynamics for Family Wealth, "For some it could be the sale of a business for $50 million. For others it could be living with student loans and more debt than assets, then marrying into a family with $6 million and the ability to erase your debts."

As the story of Midas shows, receiving "sudden money" (as financial counselor Susan Bradley calls it) is not all fun and games. A study conducted by the Economist magazine in England found that a vast majority of business owners who sold their business reported in the years after the sale that they experienced many more emotional losses than they had anticipated, sometimes regretting the sale. Lottery winners commonly report running out of money, feeling alienated from family and friends, and becoming depressed 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

To make sense of what SWS is and how to respond to it, Family Wealth begins with a cultural distinction. "Many clients find it helpful to think about great wealth as almost a cultural experience, as if one is 'living in the Land of Wealth.' Within that land we find both newcomers—'Immigrants'—and the citizens born and raised there—the 'Natives.' Sudden Wealth Syndrome can actually affect both groups," observes Dr. James Grubman, a psychologist who has worked closely with Family Wealth and written extensively on the experience of wealth.

As we'll see, sudden wealth affects Immigrants and Natives in some ways the same, and in some ways differently. The first thing to notice for Immigrants is the economic transition they make during their lives and the challenges the transition brings. Immigrants to the Land of Wealth face all the regular challenges faced by geographic immigrants. Do they try to learn fast and blend into the native culture? Or do they cling to the "old country" ways? 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 made many times more pressing if they have little children, as many young entrepreneurs do. In that case, these disoriented Immigrants must somehow raise Native children in a culture they themselves are new to. Wealth's Immigrants come to sudden money in a variety of ways, sometimes connected directly to the wealth-holders' own efforts, and sometimes not. Those efforts may take place in the arena of business, sports or entertainment. Sports and entertainment figures sometimes show us most publicly the double-edged nature of sudden wealth. Whether for a famous golf player or a highly successful movie star, the money often comes in a series of large "hits." Each can prove deeply exhilarating as well as disorienting. And, very important, each might be the last. These wealthholders 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 great 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. It also may make one believe he or she is more able to make money again in the future. This sense of capability can help allow people to explore new business opportunities, increase spending or philanthropic projects.

Sudden wealth in business comes in a wide 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, as for "instapreneurs." "These days, people often experience multiple liquidity events along the path to great wealth," remarks Family Wealth Senior Managing Director Susan Mucciarone. "But the first one or two may be deeply disorienting."

Liquidity events and Sudden Wealth Syndrome also 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 very unsettling for the wealth-creator. Someone who has spent his or her life building a business must now grapple with two large changes: the very real gain of investable wealth (as opposed to illiquid wealth), and the real or perceived loss of authority, identity, and purpose.

This loss is particularly difficult for entrepreneurs. Entrepreneurs find motivation in a highly personal dream. When you achieve the dream, what's left? "One set of siblings I know who worked in a family business together and then sold it now describe themselves as 'retired,'" says Dr. Whitaker. "They're all in their 30s. Their mom says she's on 'permanent vacation.' These labels are tongue-in-cheek, but their 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 that they are retired at 5?"

We will turn to children, the young 'natives' in the Land of Wealth, in a moment. But first we should observe how 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, more confused, more unsure 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 money or wasn't involved in the business. "Many people suddenly released from financial limits experience what's called 'the rampart spending of the newly wealthy,'" remarks Dr. Grubman. "Their spending goes suddenly up, then continues for a while, then gradually ratchets down again close to the prior level of personal spending , like the ramparts on a castle. Later there may be another burst of spending at particular times. This is normal in the initial period of adjustment to new money.

The fancier house, the luxury car, the home entertainment system, good stuff for family and friends—these are some typical purchases. The key is to watch it and find your way back to what feels comfortable to yourself and to your marriage. More serious things to watch are whether spending was a problem before the money arrived, or whether one or both spouses lack basic skills around saving, keep tracking of, and spending money wisely. Then, real trouble arrives with the money. ”

Immigrants to the Land of Wealth experience Sudden Wealth Syndrome through other means not based on their own talents or business efforts. Some are positive experiences: Ed McMahon of Publishers Clearinghouse or the PowerBall rep arriving at your door with a check for $10 million. Others, such as receiving a large windfall from an insurance settlement, may be much less positive. In each of these cases, it is critical 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 is also what you must leave behind. With wealth comes often a sense of loss: loss of familiar connections and relationships, loss of long-standing 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 of our familiar lives left behind.

Sudden Wealth Syndrome for Wealth's Natives

One might think that sudden wealth can't happen to those born and raised with money. Aren't they brought up in the environment of wealth? But while some people may be born into families worth millions of dollars, no one is born thinking of him or herself as owning millions of dollars. Overlooking the power of SWS on wealth's native citizens is a mistake many 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:

- Being suddenly informed at age 21 of ownership of the contents of a custodial account containing hundreds of thousands of dollars
- A trust "kicking in" and starting to make required income distributions at ages 21, 25 or later
- Receiving a large outright gift from a parent or grand-parent
- 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 UTMA custodial account or introducing a child to a trust are 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, emotionally unprepared for the responsibility and the change in their relationships.

"This is ironically an unrecognized point of similarity between parents and children of wealth," notes Family Wealth Director of Client Service Richard Dinsmore. "A young person's coming into an inheritance or a trust are, by themselves, not uniformly positive or negative. Just as with the sale of a business, everything depends on personal preparation and the process for adjusting to the change." Parents or grand-parents 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.

So, for example, when a child first begins to get 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 knowledge the money is coming and little guidance on how to receive it emotionally.

Young adults who come into a trust or inheritance also can go through the same experience of rampart spending as their parents did some time ago, as they get used to having more money to control. "This is a place where parents and advisors need to be particularly careful," observes Dr. Grubman. "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 the circumstances. There is a double standard: it's okay 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 fur starts 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." Remembering this initial and often time-limited overspending is a common part of adjusting to sudden money can serve to open up understanding rather than close it off.

A Native's receipt of sudden wealth also depends on what the relationship is like between the beneficiary and the family, and to what extent 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, brings feelings of anger, sadness, guilt and resentment along with the cash. This can taint the money and lead to a variety of unhappy reactions as well as unhealthy behaviors, including spending it all away to get rid of the associations.

The most common problem, though, is that receiving an inheritance unprepared can leave one feeling shocked, wondering "why me?" 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 30, 35, or 40.

Sadly, in such cases, parental fears can turn out self-fulfilling. Receiving large distributions with no emotional or financial preparation at such an age may upset a beneficiary's work habits, sense of purpose, and connections with friends and close relationships. It may also leave the beneficiary justifiably wondering, "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 I know described it to me this way," say Dr. Whitaker: "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. That's why Family Wealth advocates that clients start educating children about their wealth in a proactive way, making use of the Family Dynamics Practice and other resources as seem best. This is the way to head off Sudden Wealth Syndrome for the liquidity events of youth such as when the trust does kick in.

The Chute of Emotions

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

Susan Bradley, a financial advisor who has done groundbreaking work in this field, 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," notes Dr. Whitaker. "The experience will differ in some ways for each individual, but we can predict the overall range of emotions." Here are some of the most likely feelings that accompany sudden money:

- 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 others' help. With sudden money's tendency to cause a questioning of one's own abilities and a distrust of others, many new wealth-holders pull back from their former friends, advisors and family members. True, new wealth (or newly visible wealth) can attract hangers-on, and there is a deluge of advice, recommendations, new "business opportunities" and requests for loans and gifts. A healthy skepticism at this stage can be very protective. But these feelings can also keep one from listening to good advice when it comes in the form of new 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 SWS may often 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 brains 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 and 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. This far exceeds the normal initial burst of free spending and takes over as an out-of-control process that can quickly deplete the money. Sometimes people with sudden money go out and buy multiple houses, cars and boats far beyond even their great means. Spiraling from high net worth to a negative net worth is a real danger for the newly wealthy, whether older adults reacting to a liquidity event or young inheritors unprepared to handle their money. Some overspenders use the occasion to make a multitude of excessive charitable pledges or gifts. Though this springs from apparently benevolent impulses, these actions can lead to many regrets.

The same is the case for those who are so repulsed 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 woman I know received a $2 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," tells Dr. Whitaker, "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 feeling of revulsion had robbed her and her very young children of a financial cushion for the future."

The "chute of emotions" underscores that SWS is not just about the money; it is about the powerful feelings that people undergo in regard to wealth. A good financial advisor may not be enough help when facing this experience. Many people experiencing SWS find it very helpful to have a wealth counselor or therapist with whom to talk about all that they are thinking or feeling. Finding someone who listens, cares and can stand by you in this process sometimes makes all the difference.

Responses to Sudden Wealth

The danger while in the chute of emotions is not the feeling but the doing. "This is a hard point for most people to grasp," observes Family Wealth Director of Client Management Kayce King. "Once the money's in hand, they feel that they should do something with it, maybe many things at once. The key is that they need to think—think not about what to do, but think about what they need to think about." To begin with, recipients of sudden wealth may find it most helpful to enter what Susan Bradley calls "the Decision Free Zone." This zone is not just for deciding what to do in investing, planning, or spending. It is for thinking through what needs to be thought about, what first, and what later. Bradley recommends doing several things while in your decision free zone:

- Stay in control
- Seek help and learning
- Determine what's necessary
- Delay gifts
- Watch cash flow
- Work through emotions.

The decision free zone gives someone with 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," adds King, "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, the 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 the 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 things out for myself, and I need to do that before I can consider other people's ideas."

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

- **Park the cash.** "Consider holding the money in liquid form for 6 or 9 months," says King. "Yes, you may miss some market upside. You may also miss some market volatility! But the main point is that you get that breathing space and can think about what to do next. There is no prize for putting new funds to work the fastest."
- **Spend on memories more than material possessions.** "Your first inclination may be to buy a new house or a big yacht," says Family Wealth's Mucciarone. "It may be best to hold off on big purchases for 6 months or a year. 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 that thinking process. Get used to living differently, gradually."
- **Build your team.** "Take some time to get the right advisors around you," remarks Dr. Grubman. "You do need to connect with specialists like Family Wealth for the financial side, whether it's financial or estate planning or risk management, and with people who can help you with the emotional and family aspects of SWS. It's important to have advisors with whom you can talk about what you're experiencing and who will respect your need for time to think."

- **Talk and learn.** "You're moving to, or taking full citizenship, in a new country," observes Family Wealth's Dinsmore. "If you were moving geographically, you'd take the time to read guide-books and talk with people who've been to the place. Do the same here. Use opportunities like the Family Wealth Family Forums. Talk with other wealth-holders. Read white papers or other resources that your advisors and Family Wealth's Family Dynamics Practice can offer. Share what you learn with your family and think through how you would like to combine the old and new country values."

How long should you stay in this process of thinking? 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 may have to make some decisions relating to planning or the like. But remember the basics: don't give up control, don't give up the money, figure out what's necessary, and learn, both about the money and yourself. In this way, sudden wealth can open a path not just to luxuries but also to self-understanding.

The Promised Land

This paper has outlined how sudden wealth affects a wide variety of people. It's not just for the young founders of YouTube or Facebook. It can happen to elderly couples who have spent their lives building a business. It can happen to 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 ex-spouse, a 25 year-old whose trust has suddenly "kicked in," and the middle-aged inheritor who now has more money than she 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 cultural examples of wealth's Immigrants and Native citizens.
- Recognize the different challenges of faced by each type as well as the similarities.
- Ride the "chute of emotion," knowing that it will contain twists and turns, letting it teach you about yourself.
- Stay in your decision free zone as long as needed, focusing on getting used to the money, learning, and growing.

"If you do all this and travel the experience well prepared," remarks Dr. Whitaker, "Sudden Wealth Syndrome will gradually dissipate. Trust yourself. You'll soon be able to make decisions with good advice, good knowledge, and with your feet on the ground." Your Family Wealth advisor is ready to help you as you make this journey.

Additional Resources

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