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**The Institute for Wealth
Management Standards and the
Case for Private Wealth
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The wreckage of 2008 is everywhere in private wealth management. Big institutions, their derivative creations, and the blatant self-interest of providers and their customers have destroyed the trust that allowed private wealth to be managed while the wealth holder lived life. Without this trust, wealth holders feel they must micro-manage. Family offices, which are being squeezed as portfolios decline in value, are designing costly, but necessary, due diligence programs to protect against financial chicanery.

But from the ashes is rising a phoenix. Some of us in the single-family office business have joined with others in the standards business to build tools that can be used by private wealth holders to set the rules and dimensions of their wealth management. The founders of the Institute for Wealth Management Standards, a not-for-profit Switzerland-based organization, are committed to the proposition that wealth holders worldwide can join together to restore order and stability to the management of their private wealth. They can do this by developing and incorporating principles-based standards into family offices and family wealth management programs.

A growing number of wealth holders and professionals are recognizing that standards are an important step in modern private wealth management, a protection now necessary. Standards that are easy for a family office or trusted

advisor to access, implement, and monitor will allow for the introduction of process and objective measurement of private wealth management anywhere in the world. These standards can also enable private wealth holders to communicate in a unified voice to service providers to define what is and is not acceptable in private wealth management. And because they are “principles-based,” the standards will allow each individual or family to fit the rules to their own situation as long as they do so deliberately.

The Institute is gaining momentum globally and support especially as it solicits comments from wealth holders on the first draft of the standards, published at www.wealthstandards.org. Comment by private wealth holders and modification to fit the needs of that industry are prerequisite to the evolution of the standards and any build-out of the tools that will ultimately be available to implement and monitor standards.

IT'S ALL ABOUT RELATIONSHIPS

In fact, the standards will be particularly good for the wealth advisory industry, whether banks, single- and multi-family offices, accounting or legal professionals, or other investment advisors. They will allow us to deepen and build on relationships with our clients by serving as a framework within which we can counsel more effectively.

Our business is fundamentally about relationships, whether we are creating an asset allocation, determining personal needs and aspirations, exploring risk tolerance, designing governance structures, or helping develop a legacy. We are doing best when we help families function well in relation to their wealth. Disciplined process is prerequisite to the effective functioning of families and their wealth. Deliberate process allows our clients to rise above emotional issues and impulsive behavior. When our clients have an established process for addressing their wealth, we can communicate well with them and bring to them best practices and best services.

The standards are the tools by which a client or family builds process objectivity. A set of standards, whether for electrical outlets, design and operation of jetliners, ATM machines, or transmission of electric power, allows an industry to operate rationally and soundly regardless of the disorder and interferences of commerce, politics, and unexpected events. Similarly, standards for private wealth management can allow a client or a family to run wealth regardless of interpersonal relationships, the temptations of the moment, or the crises that buffet a person throughout life.

Once the right tools are in place and the client is using them, we can do our job effectively and ensure the personal and financial success of our clients. Communication channels open when sound investment policy statements are in effect. We know the rules, and we can trust that our performance can be evaluated on the objective bases of compliance with those rules. We can work within a framework where wealth management is not arbitrary but rather structured and managed by first-rate professionals. The standards articulate and, for each wealth holder, allow codification of the repeatable steps and management by the rigor of discipline and process.

THE CHALLENGE AHEAD

How might the standards challenge the way the industry operates? If there are any lessons from the past 10 years, one is that our industry has unlimited genius and creativity in developing products and services. However, the industry has displayed only the most fragile hold on our primary business—relationships built on trust. Only through a strategic and programmatic commitment to building relationships can we play our true role.

As a practical matter, the adoption of the standards may mean that if a family requires full transparency, many funds of funds will have to be redesigned. If a client requires full evaluation of fees, the ability to accept soft dollars could be limited. If a client requires separation of management and custody, the standard “bank” model may be threatened. There are many other areas where the financial services industry might have to change its operations.

In pursuing our commitment to relationships, the industry must not become mesmerized by the product of the moment. There is more than enough manufacturing capability to create or resource world-class investment services and products. The world’s great architects do not buy building materials for roofs, windows, and walls before they know the specifications of the house. In fact, they first seek to understand thoroughly a client’s needs and how they interrelate. We must do the same. Only when we have the foundation of a strong client relationship should we be constructing or resourcing products and services. Most importantly, those products and services should conform to the client’s real requirements.

At Lowenhaupt Global Advisors, we have found that the principles we promulgated and the developing standards based on them have been very helpful in serving clients and building relationships. Though we have no direct economic interest in either the principles or the standards, we find them invaluable for discussing process with our clients and in effectively communicating with them. The standards assist our clients in expressing what they expect of us and others. As a result, we can build process into the client’s thinking and reinforce our role of being objective and disciplined. The principles and standards allow us to demonstrate to our clients our own belief that sound wealth management melds process and wisdom.

Exceptional client service must foster relationship, trust, and benefit. When we achieve that vision with our clients, we ensure the personal and financial success of individuals, families, and ourselves. As professionals, we can deliver comprehensive advisory work, high integrity and standards, vision and understanding, and principled service. We can help clients’ wealth meet the purposes the clients have set for it. And we can then effectively enable the client to get on with life.

ENDNOTE

Principles-based standards. The standards are the result of collaboration by the founders of the Institute for Wealth Management Standards: Don Trone, one of the world's most respected authorities on investment standards and fiduciary practices; Charles Lowenhaupt, Chairman and CEO of Lowenhaupt Global Advisors; and John Pettifor, CEO of Campden, one of the world's leading information providers to ultra high-net worth individuals and families. The standards derive from the ideas set forth in the Principles of Private Wealth Management, drafted in January 2009 by Charles A. Lowenhaupt and The Global Council of Lowenhaupt Global Advisors.

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