Episode 6 | At the kitchen table with Arun Abey

How much is enough?

This podcast is a way to share stories from families we support and our family advisor partners. These stories share a common theme – a critique of the idea that to be wealthy is not just about how much money you have but how you put your family's resources to use for future generations.

My father, Graham Jones III was visiting us in Sydney this week, which made it easy to sit down at the kitchen table and talk through his story as executor of his father's estate.

Digging into the application of our family resources revealed a lot about my family story I hadn't heard before. His story is very much a traditional one, delivering the tax minimisation and asset distribution strategy laid out for him. But it's an engaging insight into the challenges that can come even with this basic approach. This story goes all the way back to the Louisiana purchase.

Episode Transcript

Tiffany: I'm here with Arun Abey, a career economist and Executive Chair of Ipac Securities and Walsh Bay Partners, and formerly director of the Smith Family. I'm really keen to talk with you about your book because, among all things, you're an author as well of How Much Is Enough?
I know the focus of that is how we make investment decisions that create wealth, wellbeing and happiness, which is so much, I think, part of the work that I'm hopefully trying to do with the families and I feel we have a shared value set there.
I was just interested, if you could take us through a bit of a journey, talk about some of the stories that you've found first hand around this focus on a holistic approach to planning. Tell me a little bit about the progress you're making in this space today?

Arun: Tiffany, the journey goes back in my case to about 35 years when I got into the financial advice business and coming from an economics background and I wouldn't call myself an economist anymore, thank goodness, but I thought ... what I was trying to do with clients was to help them to maximise their wealth. It was about risk adjusted returns and worrying about tax and so on. And those things are important. But what I realised is at the end of the day, money is a means to an end. And what is that end? Well frankly that end, there has to be more happiness. If it's not about happiness, well, really what's it about? And that might sound a bit simple but if you think of what's special about living in the 21st century, it's the first time really in human history, we have the ability not just to survive but also to thrive, but there's a whole range of skills we need to learn to actually thrive. To bring that to live, imagine you're a 21 year old and your aim is to optimise happiness over your lifetime.

How do you actually even begin to start thinking about that? Now do you actually go and have a fantastic social life and have expensive drinks with your friends and smashed Avocado, I believe is now the big thing for brunch, is that what you do? Or do you say, look maybe six, seven years out I need to start thinking about maybe getting married and having a household. Do I save money for a house? Will I be happier if I live 50 kilometres out of the centre of the city in a very large house or in the inner city with a much smaller house. What's gonna make me happier? If I can send my kids to a private school will that make me happier than if they go to a public school and what are the things I trade off? And that's just the first 10 years, right, for a 21 year old. Do I as a 21 year old actually start worrying about retirement and what on Earth does that mean and look like?

So, we got these great opportunities but it's also posed these massively deep questions. The problem with the human brain is, it's been evolving for about 200,000 years. For the vast majority of those 200,000 years, just about every year up to maybe the last 40 or 50 years our focus was short term surviving. A good day for most human beings, from where we came from the African Savannah, was having lunch and not being lunch. And if you've got through the evening, had dinner, had a chance to reproduce, that was as good as it got. Frankly, life in Sydney hasn't moved on all that much. It was a very short term focus. So our brain is massively geared towards surviving. It thinks short-term, because frankly that's how we actually lived life. The very complex trade-offs that I've just talked about are not something which were we're naturally geared to doing. That's the challenge.

The good news in this is that we now know the brain is plastic. We know we actually a whole range of skills. We actually learn the skills to actually make better decisions. I'm not sure we'll ever make perfect decisions around wellbeing but we can certainly make better ones. And the other piece of good news is that we've now seen a number of the great Universities and great academics, actually start to really have quite a serious amount of research in what does wellbeing mean. It's gone from being an abstract concept to delivering a lot of good research. And so essentially in how much is enough. What I've sought to do is bring together research from a whole range of different disciplines; neuroscience, behavioural psychology, behavioural finance and also economics. To look more deeply at this whole relationship between money and wellbeing. And essentially the ethos of my new business Walsh Bay Partners, revolves around that whole concept.

Tiffany: It's interesting Malcolm Gladwell is one of my heroes and he talks about David and Goliath, the challenge of parenting. When wealth accumulates, it's almost the inverted U. I don’t know whether you've come across that and how much wealth is actually enough in dollar terms, so a few years ago he marked it at $75,000 for the average family to be satisfied and able to parent and as the wealth increased that curve actually came down because of some of the distortion or disconnection there between the value of money, the value of work, meaning, identity, purpose. So many of these conversations are part of the work that I'm doing and I know that you're doing. How do families approach this? Is this an obvious thing, the families come knocking on your door saying, ‘We need to talk about purpose, happiness, setting up our families for success.’ The money, does it matter or we have to teach that concept to them in your experience?

Arun: It's interesting I think that's the conversation families really want to have but typically it's not what they say. What they'll say is, they want the conversation about the money, "How do we increase the money, how we create stewards for wealth and so on so forth.” But the deeper issues are the ones that you've just talked about. Let's just explore this problem a bit more. A lot of the research shows, as you say it, at about $75,000 or thereabouts, if you like in Maslovian terms, people are feeling secure in terms of the basics. Now what, in a logical sense, in a rational way you just think, "Well if I’ve now got $150,000 my happiness should be greater". So why isn't as simple that? And why so are many wealthy families, including frankly, people like myself concerned about what the wealth is going to do to our kids.

And we all heard the stories. And I think the thing is this, that there are quite separate skills, first of all in making money and there's a tonne of research and tonnes of Universities and courses about how you make money. Be it in business or frankly just going out and getting a profession. And that's important to go out and make money. There's also, if you made it, what's harder than making it? And it's not easy to make it. But what's harder than making it is actually keeping it. The skills of investment and keeping money are very different to the skills of being a businessperson or an entrepreneur and making it. And people don't appreciate it, it's a different skill set and they need to go out and learn new skills. So one of the worst things you see is a business person has made a fortune from selling their business, sets up a family office and forgets actually to build a skill set to invest it.

But the third and harder set of skills, Tiffany, is to use that money wisely. With respect to your kids. And there is not a single University course, isn't this interesting, there is not a single University course anywhere in the world on this most important and profound topic. And the problem with money, you see in economics we learn about money as legal tender this sounds like an abstract legal thing, but money is much more than that. Money is a powerful emotional force. The great emotional forces in human life are money, if you like sex, power, children. These are the things which cause people's behaviour to change. People would actually kill in relation to these forces. And that's why call it a force, people will kill in terms of money. So there's a lot of skill in learning how to use such a powerful emotional force. And the problem with the next generation simply inheriting money, rather than having gone through the journey of making it, is that they don't necessarily have that skill set to actually use it wisely. There's a whole journey you need to actually go through to learn how to use money wisely.

Our starting point with families is to tease out what the aspirations are? What would be, as a result of having made this money, what would be great life outcomes? What are the concerns? What are the skills we need to build and then what's the program for actually doing that? And again the important and valuable thing is, there's now a lot of research, there's a whole foundation of knowledge, which we can actually draw on to actually inform this journey.

Tiffany: I love the comment, because for me education is very much the platform. It's the way in, right and so if we start with education we help make better decisions, we help make the communication become more transparent, more collaborative, we start to listen differently to the needs and interests of those family members and hopefully take that wealth and continue, the word steward is to caretake, to grow and to pass on and to me that's such a fundamental part of this work with families. Have you seen a shift, what's been some of the triggers. You talk about the last 40-50 years, but even in the last 5 or 10, can you see any kind of a trend or a shift more toward this topic. Why did you choose to write the book when you did and are you that this is becoming more common place, the way say philanthropy has become much more common place over the last decade.

Arun: Right. I guess I wrote the book partly as a personal journey, partly in terms of what was seeing with clients. When I started off in business I really had no money. And so I could not have afforded to be a client of the first business I started off. And my assumption was that people with money had to be automatically happy and I thought at about a $100,000 a year you must be the happiest person on earth. Eventually I came across clients who had that amount money and they didn't seem to necessarily be the happiest people on earth, so I thought it must be $500,000, maybe that's the threshold and I was making sure I was dealing with those people on that level and that wasn't automatic happiness either. So I began to realise there was this really quite complex relationship.

As I've had the good fortune to build wealth over a long period of time, what I've seen with my clients, what I read and started to understand in terms of money being a force is I said, "We must have a good foundation of knowledge and strategy", to ensure that we use it well and also that we equip our children to use this money well. To make a difference to their lives and the lives of others and happily I stumbled across all the research I've alluded to. In terms of some of the key elements, if you have to talk about Antoine Peck, some of the key elements of the research and its applications, some of the great research is being done by people like Martin Seligman, Professor of Psychology at the University of Pennsylvania. Daniel Kahneman, interesting enough a Psychologist. A Professor of Psychology at Princeton but who won the Nobel prize for economics for in a sense look at some really quite deep research in terms as link between money and wellbeing.

A lot of the work by people like Shlomo Benartzi, Professor of Behavioural Decision Making at the University of California, now to distil what in some cases a Nobel prize winning research in a couple of minutes doesn't do it justice, but here is some of the key themes.

One is what leads to enduring wellbeing? It's not having a lot of money, it's having a sense of meaning and purpose. The starting point is discovering what it is that actually engages you. So we have the good fortune in a country like this to ... for the most part it's how we spend our time, rather than how we spend our money which is going to make a big difference. So if and how we spend our time, it engages us, it absorbs us mind body and soul we're not hating every minute of it. It really does engage us. That's a very important foundation.

If in terms of how we spend our time, it not only engages us, but has a positive effect on others that gives us a sense of meaning and purpose and that actually multiplies wellbeing. To go to your point on philanthropy and we don't seek to preach to our clients, we don't say you have to give, or anything like that, but one of the surprising things about philanthropy is that it can have as powerful effect on the giver and perhaps a more powerful effect on the giver as it does on the recipient. In exposing ... both the first generation if you like of wealth creators but also the second generation to that, linking that to engagement, meaning and purpose are very, very powerful ways of building skills to use money wisely.

Tiffany: Yeah. That purpose piece, I'm running a series of sessions with groups to just try to get to that first question of purpose and it's funny, a lot of times I get blank stares. Why would a family per se have a stated purpose. We know what we believe, what we feel is right, we have our own sense of values. But have we ever really articulated them, we just understand what they are. We are who we are. And then we dig deeper and unpack the fact that those are somewhat shared but also very different and now we're having that conversation and for me so much of this work is about having the conversation and doing it in a way that engages both parties. Jay Hughes writes about the cycle of the gift and talks about not just the preparation of the benefactor to give but the beneficiary to receive and that's been a big focus of mine, you talk about the next generation, the emerging generation.

Do you think we're spending more time on preparing the benefactor and all of the various structures and intentions and good will that they have to pass on their life's work. Equally, if not as well as, we're preparing the beneficiaries to receive, because it's this concept potentially of a burden. That if it's not done well it could be a burden. It could disrupt the identity of that individual, if suddenly this wonderful gift is just imposed upon them as opposed to imparted on them. Do you follow where I'm going with this?

Arun: I know exactly what you're saying. I think every benefactor wants to prepare their beneficiaries for wealth if you like? But typically their skill set is entirely different. The typical skill set is actually making the money and so the skill set of preparing a beneficiary is a completely ... there's virtually no overlap between the two skill sets. And this is where, professional help, the work that you do with families is so profoundly important and the complimentary work which you do and we do with you is I think ... it can be very powerful. Maybe just to give some examples of what that means. One of the interesting things about wealth, you say, "What does wealth do at a very basic level?". The only thing wealth does is to give people more choices. That's all it does. Whether that leads to wellbeing or not comes down to how well those choices are actually exercised. It sounds strange. If you've brought up with limited choice as I was, you just automatically assume that more choice is better. But what we now know from the research and practical results is that a lot choices can paralyse people. People can actually end up feeling worse off when they have too much choice. So again there's a skill set around using a choice well.

So our starting point with families is to say, "Let's not worry about things like a family constitution and so on in the first instance". Let's not assume that the family ... there's an overall set of family values. What we want with our children and with the beneficiaries is to have a sense of ethics. And there should be common sense of ethics and what ethical behaviour is. But let's recognise that the wealth is going to allow each individual member of the family to actually exercise more choice. And in a sense paradoxically, it actually promotes more diversity. So the first thing is to actually understand each member of the family as an individual. What we know is that when people make decisions which actually resonate with their core values, that that tends to result in better wellbeing but what are your core values? So we take clients as you would to an exercise of first of all discovering what each of their values are. And that's about increasing self-awareness.

Then surfacing that in a family discussion so you also start to create a common understanding. So that's why Tiffany actually does what she does and likes what she does. I've now got a better understanding of you Tiffany, as a member of my family. And then we can start to on hand respect and promote diversity but also work out the ways we can actually build bridges of unity and so the aim really is how do we actually create unity in diversity.

Tiffany: I love that. It's a wonderful example and so well illustrated in terms of that very beginning journey that a family can take. And that's probably where my final question leads us, Arun, is often the question I get from financial advisors, maybe the lawyers and accountants to some extent, but those who are often already in there because there is a wealth creation opportunity, liquidity event that creates the conversation in the first instance. What would be question you might ask to guide those advisors to change or shift the type of conversation that they'll have with the client, to get that family thinking about this sort of topic. Is there a question or two that helps to change the way they talk about that wealth with those families.

Arun: Yes. I suppose, the title of my book which is 'How Much Is Enough', the answer is not a number. The purpose of that title was to get people to think more deeply about the purpose of the wealth. Now typically what happens when people go and speak to a family, to a lawyer or an accountant, who play important roles, first is they start off talking about structure. And the critical thing in terms of the discussion we've just had is to start off by thinking about what the purpose is. What would be great outcomes of this wealth? what would be terrible outcomes? Before we worry about the structure, let's now think about the strategies which will maximise the chance. The reason people actually are successful in business is that they have good strategies. They don't worry about the structure at the outset. They think about their strategy and so one part of the strategy we discussed is going through that whole understanding values, connecting values to building bridges of understanding between the family.

That then translates into what the strategy is which we want to deploy as a family to support everyone, to also make sure that people aren't being disabled by the money. That the money is not actually going to take away people's incentives and so on and then what are the structures we need to actually support that. So our starting point now with families is a piece of work which we call Family Strategy Planning and there are parts at that which we're very good at. There are more extensive parts ... which a group like yours with the strong soft skills around exploring areas of family disputes and so on, play a very important role working with us to really get the family together with a united sense of strategy. United sense of strategy doesn't mean it's the same for everyone it's respecting the difference and working out the commonality. From there, all the technical pieces then become a lot easier. The estate planning piece, the succession planning piece, the investment piece, they become a lot easier.

If you start off with all those technical pieces without the strategy, they become a lot harder and invariably they end up not being supportive of the strategy.

Tiffany: That's very helpful, I agree this is a holistic model of advice we're talking about and I'm sure we'll continue to workshop this together over the coming years as we're looking at, what is the right programme of essentially education from the very first conversation through to the one that we'll be having for generations to come. So thank you for your time.

Arun: Thank you Tiffany. It's great to speak to you.