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—*Investment News*
February 24, 2017

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Living in an Inverted U-Shaped World

Excerpt from *A Better Way: Using Purposeful Trusts To Preserve Values & Valuables In Perpetuity* – Diefendorf 2014

Malcolm Gladwell, in his book David and Goliath, reasons that we often overlook the obvious to make assumptions that ultimately prove to be incorrect. He uses the biblical story of David and Goliath, along with other examples, to show that unexpected and often nontraditional methods can be employed to overcome seemingly insurmountable odds. In the biblical story, David used a stone from his slingshot propelled at 150 miles per hour to strike Goliath in the forehead, dazing him enough to finish the battle at close quarters. Everyone believed small David had no chance against large Goliath—an expectation built on faulty reasoning. In this case, the slingshot is a nontraditional method used to overcome a seemingly overwhelming foe.

Gladwell shows that people in society have many preconceived expectations that are built on faulty reasoning. He relates the story of a California girls basketball team that uses a non-traditional method—a perpetual full-court press—to win against seemingly unbeatable teams and to achieve a "dream season." Again, this is an example of an underdog using a nontraditional approach to solve a difficult problem and achieve an outcome that conflicts with societal expectations. Gladwell also points out that society generally expects that having more money equates to happiness. However, with respect to raising well-adjusted children, he believes more money only brings happiness to a certain point. He makes reference to the research of Dr. James Grubman, who has studied the amount of "difficulty" involved in raising well-adjusted children in a wealthy family. Grubman's research indicates that "more is not always better" (going against societal expectations). *And why is this? According to Grubman, it is due to the fact that we live in an inverted U-shaped world*.

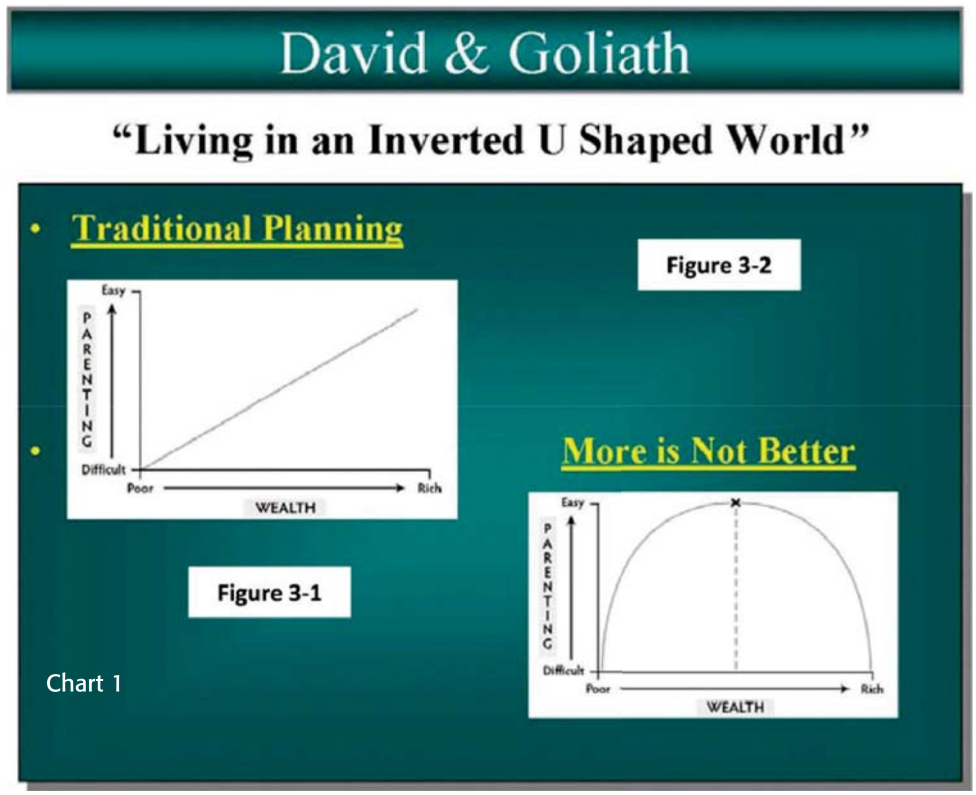

Chart 1

Gladwell describes an individual who struggles financially as he grows up. He comes from a family that closely watches how they spend every penny. He learns that the family must make value judgments about how to allocate resources. The impact of these struggles during his developmental years is seared into his attitude and behavior patterns. He thus learns the value of money and the virtue of independence and hard work. Yes, we all agree that money is necessary for a "better" life, so he seeks riches to make life easier for his children. Consider the graph in Chart 1,Figure 3-1, which is derived from a similar graph in ***David and Goliath***.

This represents the traditional way of thinking, i.e. that "the more money one has, the easier it will be to raise children." But according to the research of James Grubman, such thinking is based on incorrect data. In fact, the curve should not be linear at all; rather, it should be an inverted U. See Figure 3-2, also derived from David and Goliath, per the ideas of Dr. Grubman. This implies there is a point of diminishing returns — a point where wealth is no longer helpful and ironically becomes hurtful in raising children.

We can use the excellent work of Dr. Grubman, and the insight provided by Malcolm Gladwell in ***David and Goliath*** as a foundation to build on. According to Grubman, raising children gets more difficult when wealth reaches a certain level. Note that the scale of "difficulty" changes subtly here since the difficulty of not having enough money is different than the difficulty of having too much money. In the former, "difficulty" relates to the inability to provide food and shelter while in the latter, "difficulty" is a measure of something that relates to values (certainly not to an *excess* of food and

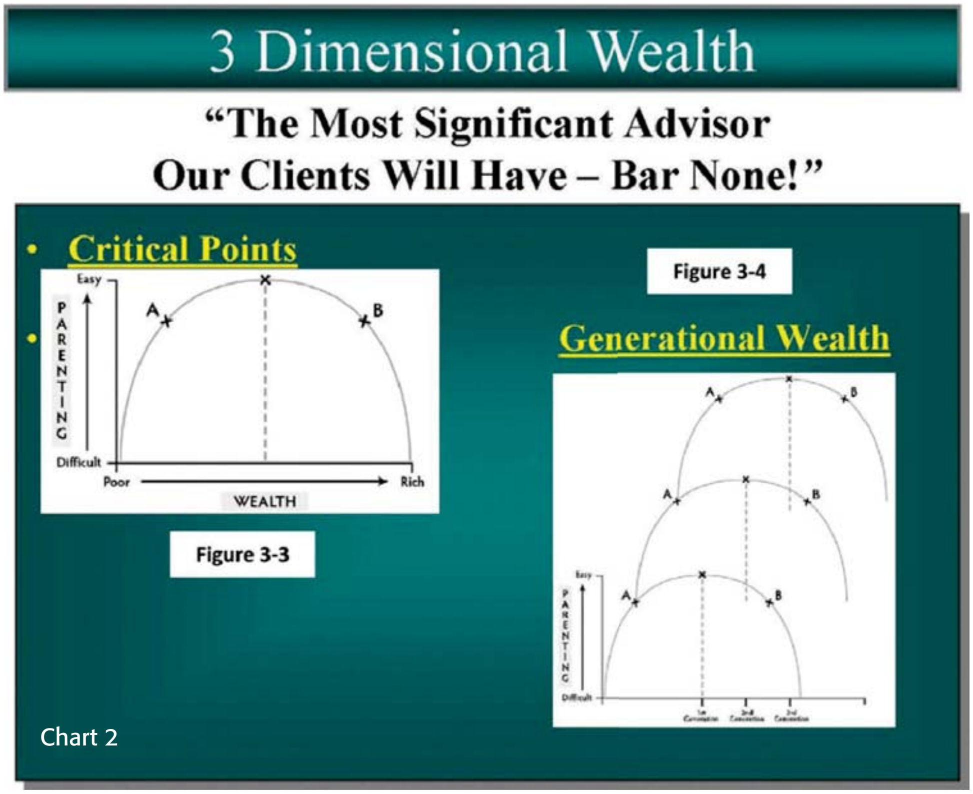

Chart 2

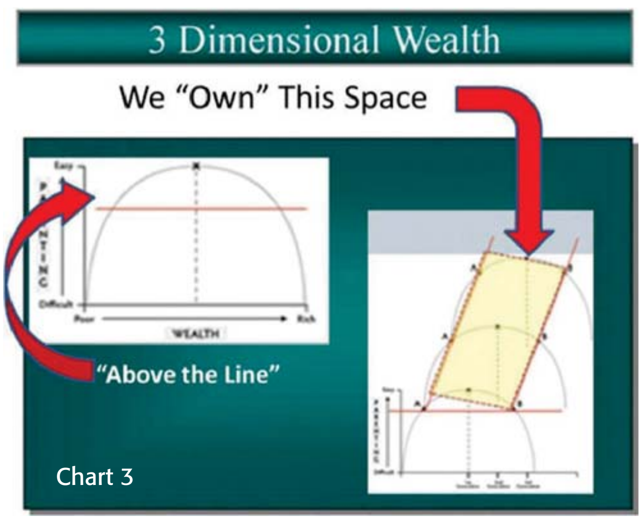

Chart 3

shelter, the other extreme). In any case, too much money does create difficulties, and this inverted U-shaped curve illustrates that traditional thinking about wealth creation only works to a certain point. Once one reaches the apex of the curve, “more becomes less.” Grubman points out that a family with modest wealth and in the creation stage of their journey, can say “No, we can’t” to their children due to lack of resources. However, a family with abundance cannot say “No, we can’t” to their children based on a lack of resources; rather, they must say, “No, we won’t,” and this requires a *conversation* with children. Grubman writes that the children need to be taught this message: “Yes, I can buy that for you. But I choose not to. It’s not consistent with our values,” and this message requires that the parent has a set of values they can articulate and make plausible to the child—very difficult, as Grubman puts it, “under any circumstances and especially if you have a Ferrari in the driveway, a private jet, and a house in Beverly Hills the size of an airplane hangar.”

This kind of planning — values-based planning via a purposeful trust — goes far beyond the traditional estate planning and wealth management. It requires that “values” becomes part of the conversation, not simply “valuables.” Based on my experience, would suggest that in addition to the apex on the inverted Ucurve, there are two additional points that need to be addressed see Chart 2, Figure 3-3.

Point B is the point in time when the family realizes that (1) their abundance of wealth has become a problem and (2) that it takes away from the health and “total” wealth of the family. My experience indicates that when a situation reaches this point, it’s usually too late— the damage has been done. Point A, on the other hand, occurs when the family has amassed enough wealth and there is still a positive effect on the family from creating more, but the positives come at a diminishing rate. This is the optimal time to initiate values-based planning. Although many would expect that such planning should begin at the apex, for maximum benefit, values- based planning should begin at point A.

The strategies described in this book are designed to help you avoid the pitfalls of traditional planning, which all too often lead a family to point B. These strategies will help you plan and implement a new trajectory, one that will allow you to perpetuate values into the next generation. By protecting your values—i.e., by putting these values first (before your valuables, in contrast to traditional planning)—the inverted U-shaped curve becomes the curve you see in Chart 2, Figure 3-4, and the negative consequence are avoided.

For the consultant who can look beyond the Traditional One-Dimensional approach to wealth management there is an expanded operating space that will give you new meaning, purpose to your work and a better way to help families navigate the potholes that are created by money which can profoundly hurt families.

For consultants who can operate “above the line” from generation to generation, this space “belongs” to you. No fear of being robo-ized out of a position.

Monroe “Roey” Diefendorf, Jr.
CLU, ChFC, CFP®, CIMA, CAP, RFC®

Monroe “Roey” Diefendorf, Jr. CLU, ChFC, CFP®, CIMA, CAP, RFC® active since 1970, Roey is the 4th generation of his family in the business. He has authored over a dozen books, including *3 Dimensional Wealth: A Radically Sane Perspective On Wealth Management*. Roey, in conjunction with Shawn Barberis, JD, has introduced “MoreThanMoneyVault.com” a technology tool to deliver “total” wealth management. This platform is the nuts & bolts that make 3 Dimensional Wealth consulting transformational for clients who wish to become “legacy” families.

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