Introduction to Building

Multi-Generational Wealth

Presented 2014 – Jason Diffner

*This article is transcribed from notes from a live presentation –* The Dominion Family Training Retreat*. Those notes were designed for the spoken rather than written medium. I have only modified the text at a minimal level to adapt it to the written mode for reading. It is not sufficiently edited. Some sections are left in an outline format. It does not conform to publishable standards for source referencing (among other things). The training presentation consisted of five different sessions. I make reference to other “articles” which in the original were the different sessions of the training presentation (the titles of which were:* Restoring Families as Multigenerational Teams, The Biblical Covenant Structure, Creating Your Family Mission Statement, Family Governance: The Family Constitution, and, Introducing Generational Discipleship and Building Generational Wealth).

*The live training session behind this article was originally one session with two parts – Generational Discipleship and Generational Wealth. For this transmission I have separated them into two articles.*

Let me explain why I’m including the word, “Introduction” in this training title. This is a subject that I have not finished research on. I find myself in a bit of a dilemma. I do have things that I need to impart if I’m going to help families begin their journeys of multigenerational work, but I’m painfully aware that there is more work I need to do before I get to a more settled place on this subject.

With that qualification, what we will be doing in this training module is flying over a list of ideas and principles that I think families need to consider. We will not be able to offer full explanations on everything at this point. These are pointers in the direction I think families need to explore. My intention is that in later training materials I will put together a more complete synthesis of the things I have learned in this area.

Here’s my caveat, or qualification, as we launch into this subject. I am not pretending that I have personal expertise in this area from experience. What I am sharing with you is what I’ve learned from what actually wealthy, multigenerational families teach and do (I’m playing the role of researcher-reporter). This is an area where we especially have to remember that we are talking about a multigenerational reality rather than a mono-generational one. There are going to be things that we talk about that apply to a multigenerational family’s finances that don’t apply to an individual family’s mono-generational finances.

# Distinction: Unrighteous vs. Righteous Pursuit of Wealth

This distinction between a righteous vs. an unrighteous pursuit of wealth needs to be clear in the minds of families if they want to build a multigenerational line. Because the Scripture gives clear warnings about the dangers of riches, many Christians have taken a posture that the spiritually safe bet is to not pursue wealth at all. The problem with this is that a proper distinction is not being made. What is condemned is an unrighteous pursuit of wealth. If you take this and apply a principle of absolutely no pursuit of wealth, you will violate other Scriptural principles that clearly imply a righteous pursuit of wealth. The book of Proverbs for example, over and over again teaches that one result of wise living is the accumulation of wealth. It’s just a by-product of wisdom. So, if you are going to pursue a philosophy of “no-wealth-building,” well, then according to Proverbs, you had better commit yourself to remaining a fool! You see the contradictions you can get yourself into.

As we’ve mentioned earlier, wealth is the fuel of the family. And when we talk about building wealth in the context of multigenerational families, we are not talking about *individual* wealth, but rather *family* wealth, the wealth that belongs to the whole family.

The fact is, your multigenerational family must pursue wealth, and of course, we are assuming in a righteous manner. If you don’t, (that is, you don’t pursue family wealth) you will cut off the fuel of the family and the multigenerational mission will be starved and it will eventually die. It is a false piety, a kind of Gnosticism that says the spiritual things in our human, earthly world can live without the body, without material means. All the criticisms of fleshly and earthly, and “worldly” things in the Bible are not criticisms of those things in-and-of-themselves. They are criticisms of making those things idols. Because fallen man wrongly worships the Creation rather than the Creator that does not make the Creation bad. It’s the wrongly directed worship that’s bad. God tells us in Genesis 1 that his creation is good.

So, while the material wealth of the family is not the goal, it is a *necessary* tool to serve the family’s mission.

Now, assuming we’re agreed that we must pursue material wealth as part of what it means to be a multigenerational family, our next point is going to seem paradoxical.

# Paradox: Focus on Non-Economic Assets to Grow Economic Assets

This is a uniform consensus among all the writers on multigenerational families. The factors that most determine the success of building and preserving the economic or material wealth in the long term are not directly economic and financial issues.

Listen to what James Hughes Jr. says about this:

“Very few families have understood that their wealth consists of three forms of capital: human, intellectual, and financial. Even fewer families have understood that without active stewardship of their human and intellectual capital they cannot preserve their financial capital. In my opinion, the issue most critical to the failure of a family to preserve its wealth is concentration on the family’s financial capital to the exclusion of its human and intellectual capital. …In fact, this concentration on financial capital may even cause it to go out of business in just one generation.”

And in another passage he says this:

“With growth of human and intellectual capital comes a high probability of growth of financial capital. Without growth of human and intellectual capital, financial capital may still grow, but it will not matter to the family’s ability to preserve its wealth over the long term, since the family will go out of business as its human assets become less and less valuable.”

The point here is that multigenerational families must follow the paradox of focusing on “non-economic assets,” like your family culture, if you want to produce greater economic wealth over time. Later we’ll see why that is the case.

# Growth is Preservation

While growing wealth and preserving wealth are two distinct disciplines, for multigenerational families particularly, they must grow their wealth over time if they want to preserve it. There is no such thing as a place of unending static equilibrium. Again, here is what Hughes says:

“Any family whose wealth of human, intellectual, and financial capital is simply maintaining value rather than growing is either in or in a danger of entering a state of decay or entropy. A family, like any investor, must maximize its return on capital if it is to achieve the growth necessary for preservation over a long period of time.”

# Build a Culture of Producers vs. Consumers

*Each Generation to be a Wealth-Creating Generation*: For a family to grow and preserve its wealth over multiple generations, each member of your family must consider themselves and behave as a Producer rather than a Consumer. As it relates to multigenerational families, the producer formula is pretty simple: produce more than you consume in your lifetime. Of course, that is easier said than done. But we need to start at least with this basic goal. We need to be discipling the members of our family to be producers rather than consumers or else we will not preserve our family lines and the covenantal missions they are supposed to protect.

Now, later we will be talking about trusts, but let me ask you this – what is the assumption of your typical scenario of the 2nd-generation of adult children who inherit a bunch of money from wealthy parents? In other words, what does that 2nd generation typically do with the money they inherit? Yes, they typically spend it on their living expenses. Not so with you! For multigenerational families, individual members must *add* to the collective wealth of the family rather than subtract from it. Each generation is to assume it is the “first generation,” so to speak, in terms of wealth creation.

*An “Entrepreneurial Culture” – Not Necessarily a “Culture of Entrepreneurs”*: This is a new phrase that I’m entertaining for talking about the needed business-mindset for multigenerational families. The phrase is this: “multigenerational families need to build an entrepreneurial culture, but not necessarily a culture of entrepreneurs.” What do I mean by that? We’ll start with the second half of the phrase – *a culture of entrepreneurs*. For those of us who listen to leaders who talk about multigenerational families, we have definitely heard the exhortation to encourage our sons to pursue entrepreneurial vocations. I agree with this to a certain extent. There are certainly many advantages to being a family of business owners. But, the question is, should we encourage or expect that ***each*** one of our sons pursue entrepreneurial business ownership, regardless of their particular temperament and gifting? I am not fully convinced on this question, but personally am becoming more persuaded that there are dangers in encouraging each of our sons to assume the role of business owners irrespective of their individual make-up.

I’ll share a quote in a moment that supports that perspective, but first, let’s discuss what I mean by an entrepreneurial culture.

By entrepreneurial culture I mean that the family as a whole is business-minded or producer-minded. I have a couple suggestions or ideas for how this might apply to a family.

First, I think this implies that employees should still think and act in a business-owner perspective, or mind-set, as far as it is possible. For example, for we employees, if we assume a business-mindset to our work, what is the good or service we are selling? Yes – our labor. We’re trading our time for money. This is one of the biggest arguments, by the way, for pursuing business ownership. From the perspective of a business-owner, it’s just a fact that this is one of the most inefficient means of producing wealth. If we want to increase the volume of our good or service, what do we have to do? Yes – work more. Not the most efficient or desirable conclusion is it? On the other hand, you can also increase the value of your labor and therefore its price. This means investment in your skill as a worker. This is a better direction to focus your energy on rather than increasing your time. At the very least, a man should focus on increasing his hourly rate of pay overtime by becoming a more skilled laborer.

Another way an entrepreneurial mind-set would affect the employee is that it should impress upon him that he should not think of his job as his exclusive, or even his primary, form of building wealth. Another argument for business ownership is that a business owner can pass on his business to his descendants whereas employees cannot pass on their employment to their children. Employees ultimately increase the value of another family’s business asset. I think employees should think of their job as a means of buying assets. And when we think of what business we’re in, we don’t think first of our job, but rather of the primary assets we invest in.

Geoff Botkin has a great audio training titled The Quadrivocational Mission. He makes the same point more or less using different terminology. I plan to prepare a whole talk basically reduplicating what Botkin has done in his presentation on this because I think it is critical for multigenerational families. The Quadrivocational Mission encourages sons to adopt these four identities as part of what it means to become a man: A man is an Estate Manager, a Business Resource Developer, a Nation Builder, and an Ecclesiastical Shepherd. I’m focusing on the first two here. Having an identity as an Estate Manager and Business Resource Developer, rather than, say, a mere student or worker, when a boy transitions from puberty to manhood is what we want to instill in our young men. What this does, is that a boy learns that part of what it means to be a man is to be an estate manager and business resource developer *regardless* of the particular situation he finds himself in. It doesn’t matter what kind of job he is or is not doing. It doesn’t matter if he is unemployed. It doesn’t matter if he is a student. Those variations in life are just that – variations. But he is always building an estate. And he is always managing business resources in his dominion work for his Lord even if he is an employee. And for we more seasoned men who are employed, we need to adopt this identity as well.

That was one suggestion for what an entrepreneurial culture looks like in a family.

A second idea for what an entrepreneurial culture would look like in a family is that they identify and invest in the actual entrepreneurs of the family. So rather than have a goal that every son in each generation is to be a successful entrepreneur, have a goal as an Extended Family that at least one family business will be successful. Those that are not entrepreneurially gifted can invest in and support the one or two, or however many, gifted family members. It may be an unnecessary burden to ask every child, or every nuclear family, to be a successful business creator, however, to ask this of an entire Extended Family is much more reasonable and feasible.

I was pleased to recently find these two quotes from James Hughes Jr. that I think supports this idea of a distinction between building an entrepreneurial culture but not necessarily a culture of entrepreneurs:

*Entrepreneurial*: “A family that starts its long-term wealth preservation planning by adopting the metaphor that is it is a business will begin with a wonderful psychological tool. If a family thinks it is in business to enhance the lives of its individual members, it discovers the most powerful form of preservation thinking it can do.”

*But Not Necessarily Entrepreneurs*: “A family that imagines or, worse, assumes that every member of the family will be a wealth creator, or even that in every generation someone will have the creative instinct to be a great financial wealth creator, is fooling itself. Such a family is in entropy and will swiftly go out of business.”

Here is one last quote on this subject that I want to share that I hope may be a source of inspiration for us to see what’s possible. This is a quote from Jeremy Pryor in his eBook titled, ReFamily: A Biblical Blueprint:

“In our community there are three ways families make additional streams of income through new businesses. The first is being an entrepreneur who starts new businesses. The second is being a great partner to an entrepreneur who is starting a new business. And the third is taking over a growing business an entrepreneur has started, but no longer has the energy or expertise to continue developing. In each case what the family asks for is equity (a percentage of ownership in the business) and not just income. Remember the goal is not to land a better job but to help your family achieve financial independence. In our community the average number of years to independence through business ownership is under 5 years ***and financial independence through more passive investments is taking only 10-15 years. This is because the greatest single thing any family could do to cut in half the time it takes to reach financial independence is to be a part of an entire Christian community that is on the same path***.”

An additional thing for us to notice here is the aspect of community. Remember in the previous training module on family discipleship how I said one topic area that we didn’t have time to talk about was the relationship between the family and community. Well, without getting into that, I think you can see that this is one example of a family’s need for community. We’ll leave it at that for now.

I should also add, that while I’ve made the suggestion that we don’t need to necessarily encourage every son, or every nuclear family to pursue business ownership, as a generalization, I do believe there needs to be a much, much higher proportion of Christian family business owners in the population. Every son and every family should seriously consider if pursuing business ownership is right for them.

# Mentality: Stewards, not Owners

Multigenerational families think of themselves as stewards of their assets rather than owners. Their mentality is that wealth belongs to the family primarily, and to individuals secondarily. It is primarily for the family as a whole, rather than for individuals in particular.

And just in case there is any confusion here, this is not suggesting some type of communism applied to the family. The stewardship is relative to God first and then to the whole family as a whole. The heads of nuclear families remain owners relative to other nuclear families. The emphasis on the stewardship principle is more about how you spend your money. Is it to enhance our own interests or that of your multigenerational family?

# Building Wealth: Slower and harder is better

This is not necessarily an intuitive idea so it is important that you hear and understand it. For multigenerational families, the slower it takes to build your wealth, and the harder it is to build your family wealth, the better. Now this is one of those principles that I learned from actual, wealthy multigenerational families. So, if your first reaction is that this doesn’t make sense, suspend judgment for a moment. Although, this should sound familiar. Recall Proverbs 13:11: “Wealth gained hastily will dwindle, but whoever gathers little by little will increase it.” Well, it turns out that those who have observed multigenerational families have found that this is actually the case in real life. So, let me say this in another way: the principle is that the faster wealth is made and the easier wealth is made, the quicker and easier it is to lose. The opposite is true: the longer it takes to make and the harder it is to make, the longer it tends to stick around.

So if this is true, what are the implications for what kinds of businesses and investments your family should pursue? As a multigenerational family, let me remind you… I’m not talking about a single man with a mono-generational assumption. The answer to the question, of course, is businesses and investments that are difficult to build and take a long time to do so.

Do you realize that if this is true, winning the lotto should be seen as one of the most undesirable occurrences for a multi-generationally-minded family? Seriously. Think about it. It is a threat to be avoided at all costs!

# Transition Wealth Increasingly in the Direction of Real Wealth

Here is another point that wealthy multigenerational families make about their investments. Multigenerational families should increasingly shift their wealth in the direction of “real” wealth, or more substantive wealth. Now before we look at a list of examples, I need to give a couple of caveat reminders here. This list is focused on the assets of multigenerational families; it is not a recommendation for individuals, or nuclear families with a mono-generational assumption. The other qualification, is that some of these recommendations are only applicable in an economy that is based on a fiat-currency, that is, a debt-based system (which our current system unfortunately is, of course). With that, the following is a list of examples for how multigenerational families should consider shifting their portfolio of wealth over time:

* Real money (= gold, silver) vs. Currency (= fiat cash)
* Durables (e.g., tools) and stocked bulk perishables (*Alpha Strategy*)
* Privately held businesses vs. publicly-traded securities
* Productive Land vs. Suburban residence
* Allodial title vs. Real ( = *royale*) Estate
* Lots of children vs. ……. Not!

Here are some general characteristics that apply to multigenerational family wealth: These families are more willing to give up higher (short-term) ROI for greater security and control of assets. They prefer to hold assets closer-to-home, so to speak. For example, investments in privately held businesses tend to be more preferable than publically-traded businesses. Assets tend to be less liquid and more tangible. They tend to require higher levels of active management. And rightfully so if you’re serious. Remember, if it doesn’t take a measure of sacrifice, over time, it is not valued, and it will be lost.

# Estate Tax and Trusts[[1]](#footnote-1)

“Own nothing but control everything.” If you haven’t heard this phrase before, it’s considered one of the “secrets” of the wealthy, and soon you will see why.

As multigenerational families, we’ve talked about how wealth is the fuel of the family. Biblically, covenantal families are obligated to pass their wealth to their covenantally faithful descendants. The problem is, in today’s world, can you just decide to give all your wealth to your descendants upon your death? Of course not. The state wants their cut. For wealthy families today, the last I checked, the estate tax rate was 55% for everything over about $5 million. That’s not a problem for us middle-class peons right? If you’re thinking that, you’re thinking mono-generationally again. What is supposed to happen over time in a multigenerational family? Yes, your descendants ideally should be leveraging the investment made into them and increasing their wealth. Eventually, they will be the targets of excessive estate taxes.

Is there a way to avoid this kind of taxation? The answer is yes. And it is through trusts, and in this case, specifically what is called a dynasty trust, or a generation-skipping trust. Here’s a simple definition of a trust:

“A trust is a legal agreement that allows one party (the grantor) to give another party (the trustee) the right to hold assets for the benefit of a third party (the beneficiary).”

In essence, what is happening here, is by giving up the privilege of ownership of assets, you are no longer taxed for those assets as an individual. You are giving something up – when you transfer money to a trust, you can’t thereafter just spend it on anything your heart desires. But if this is money that you intended to go to your heirs anyway, why not give up ownership of it now? This is where the principle of “own nothing, control everything” comes from. You still control the money in the sense that it is going where you want it to go… in this case your descendants. But once it has been dedicated to them through the trust, you can’t take it back for other purposes (otherwise, you wouldn’t be legally transferring the right of ownership).

Now consider this. Typically, we see only wealthier people use trusts. Is there any reason for us of more modest means to consider starting trusts earlier? Let me suggest a few reasons. First, suppose you’re 30 and you invest in stocks and hold on to them for 40 years. And all that time all the dividends were reinvested so you enjoyed all the compounding that went along with that. You then sell them so you can transfer that wealth to your children. What kind of tax are you going to pay on the gains? Yes, personal capital gains tax. Now what do you think what kind of tax would be paid if the exact same thing happened inside a dynasty trust? Exactly – no personal gains tax.

Another reason to consider looking into a dynasty trust now is the possibility that current options will no longer be available in the future. If new dynasty trusts are severely limited in the future, there is still more of a probability that existing dynasty trusts will be protected from grandfathering rules. Grandfathering rules state that new laws are only applicable to current and future transactions and not to past arrangements.

The last reason to start a dynasty trust earlier is that there are certain advantageous rights and privileges that the 2nd and subsequent generations have access to. And of course, you can’t be a 2nd generation or beyond member of this kind of trust unless your predecessors started it decades earlier. In other words, mom and dad, get started on this soon!

This has been a gross oversimplification of trusts. I honestly struggle to understand them… they’re one of those things that I only understand them right when I’m done studying them and then in a matter of weeks all the details leak out of my mind. The point, here, however, is that as multigenerational families, we have to pursue all the legal strategies available to us to keep wealth in the family, and the fact that this will make us think and plan hard is not an excuse to evade the necessary work that needs to be done.

Comprehensive Wealth Plan

If we were to conduct a more extensive training on the subject of building a comprehensive wealth plan for your multi-generational family, it might look something like this:

1. Study economics, business, investing, finance
2. Determine how extended family members will work together
3. Design a wealth building plan
4. Design a wealth preservation plan
5. Determine a distribution policy
6. Write it down!

1. Since conducting the live presentation upon which this article is based, I have learned of another powerful tool that I am convinced all multi-generational families need to pursue: dividend-paying whole life insurance policies for the purpose of establishing a family bank. This will have to be addressed in another article. In the meantime, please see Nelson Nash and the *Infinite Banking Concept*. [↑](#footnote-ref-1)