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Dear Clients and Friends:

A huge wave of wealth, estimated to be in the trillions, will be flowing from the oldest generation of Americans in the coming decades. Unfortunately, about a third of their beneficiaries will spend or lose all of it within the first two years.

This is from a 30-year survey by the Federal Reserve, funded by the Bureau of Labor Statistics. What do children and grandchildren do with all the money they inherit? Economist Jay Zagorsky, a researcher at Ohio State University, has studied the data. He says, "The vast majority of people blow through it quickly."

The first hurdle is family and friends, looking for a handout. When people you care about ask for money, it's hard to say "no." The best solution might be finding someone to act as a gatekeeper. "Gee, I'd be happy to help you out, but I hired an investment firm to manage my money, and I put them in charge of everything."

The survey found that many heirs lose money by investing in things they don't understand. Just because someone has come into a lot of cash, doesn't automatically make them a sophisticated money manager. But it's easy to feel that way, becoming a target for investment advisers who promise high returns.

Some financial planners recommend a "decision-free zone" to follow a windfall of any size. During this time, heirs can process their emotions and refrain from making big moves. For some people, this could last as long as a year, letting their excitement die down as they investigate sensible options with a cool head.

Receiving a big inheritance can lead to all sorts of ideas, while forgetting to pay off credit cards with a 20% interest rate! Some heirs have the mistaken notion they're suddenly qualified to buy a business in which they have no experience, or start one up. Others may think they can retire and live off the money they've inherited, without doing a careful financial analysis.

Zagorsky says, "Teaching potential heirs about the temptation to spend the money, before the estate is distributed, may encourage more of them to invest or save their inheritance."

That's not an easy task. When it comes to spending and saving, habits are hard to break. For those who really like to spend, coming into a large amount of money just adds fuel to the fire.

By the time the younger generation is in their 40s or 50s, parents can see how well they're managing their own money. When setting up an estate plan, unless you're leaving everything to charities, there are only a couple of options. Assets can be turned over to individuals outright, or with strings attached, like providing an income for life. In either case, it's best done with a well-drafted living trust.

As an investment adviser, I see some good news for the stock market flowing out of this study. It's estimated that over the next five years, $2 trillion will be dumped into the economy by heirs who spend, lose, or donate what they receive. Those dollars in motion will be a stimulus for American business, and for the markets in general.

There's always an upside!

Regards,

Chuck

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