



STRESS TEST LESSONS FOR ALL OF US

In many ways, the Super Rich—those people with a net worth of \$500 million or more—are at the vanguard of wealth management, with tremendous access to expertise. Consequently, learning from the actions and orientations of the Super Rich can prove quite useful for affluent individuals and families who haven't reached the level of the Super Rich.

That's especially true as more products, services and expertise expand. Many solutions that were once available only to the Super Rich are now accessible by the "merely affluent" through resources such as virtual family offices, which bring together high-level expertise in cost-effective ways.

One big example is stress testing—a process commonly used by the extremely wealthy that is becoming increasingly popular with less affluent individuals and families.

Key Takeaways:

- Stress testing can help ensure you aren't making any serious mistakes when it comes to your wealth management plan.
- Stress testing also can help you see whether you are overlooking any meaningful financial opportunities or strategies.
- Often, problems identified by stress tests result from crossed wires or failing to think through what really matters to you and your loved ones.



Putting a plan through its paces

Stress testing is a systematic way to evaluate whether the financial (and other) solutions you currently have in place are likely to generate the results you want and expect. Stress testing is also done to assess how a solution you might be considering is likely to behave in different scenarios. Finally, stress testing can be helpful in determining whether you are missing out on or overlooking opportunities that could enhance and improve your results.

We see that the Super Rich make extensive use of stress testing. It can potentially help them ensure that they are not making any serious mistakes when it comes to wealth management. It also can help them see whether they are overlooking any meaningful financial opportunities or strategies.

Two examples of stress testing

The following are just two examples of how and why the Super Rich might stress test their wealth planning.

Example #1: A very young inheritor

A stress test of a will discovered that a family's youngest son, then 6 years old, was slated to receive an inheritance of slightly more than \$250 million when he turned 12—a fact that surprised and dismayed the family. The problem was a technical failure: The will should have read that the son inherits the fortune at 21 years old, not 12 years old.

However, even that switch didn't address the problem—as the family also didn't want to give so much wealth at one time to a young adult. The stress test revealed that there had been a serious breakdown in communication between the family and the people involved in drafting their plan.

Because of the stress testing, the Super Rich family's wealth plan was dramatically adjusted and updated. Now, the son will inherit substantial wealth in stages beginning when he turns 21. In addition, the wealth plan now has a framework and structure for creating a dynasty while also insulating family members from losing wealth because of litigation or divorce.

Example #2: An immunocompromised family

An extremely wealthy couple was highly confident that their wealth planning coordinated by their single-family office had been done well and would get them the results they wanted. The couple is very astute and understands the nature and even much of the complex mechanics of their plan. But they were curious about whether there might be legal strategies they were unaware of that could benefit them.

The couple's plan was to have the bulk of their fortune go to charity, and the plan was designed with that goal in mind. However, it turned out there was a small catch in the logic. The family has a history of certain medical problems, some severe, and their charitable interests centered in part on certain diseases. Presently neither the wealthy couple nor their children showed any indications of these conditions.

If these conditions were to manifest, the couple decided they would take the steps necessary to get the best treatment they could identify—even if the treatments were very expensive and experimental (cutting-edge therapies not approved in their home country, for example).

Unfortunately, genetic testing revealed a strong possibility that more than one of the couple's children will contract a serious medical condition. Some of the most promising treatments are still in development and will likely be quite costly.

The couple ended up stress testing all of their wealth planning. On a technical level, everything was well done. The planning did exactly what the wealthy couple wanted and did so very tax efficiently. However, significant changes were made to the wealth plans to provide for the possibility of the children getting sick—including enabling them to receive state-of-the-art medical care for their genetically predisposed conditions.

- 
- The stress testing process raised key questions, including:
 - What is the likelihood of anyone in the family having any of the conditions?
 - With medicine advancing rapidly, what future treatments might be able to address these conditions?
 - Based on the answers to those two questions, is the wealth plan appropriate as is, or are modifications needed?

Stress testing and the human element

Sometimes the problems unearthed in stress testing are caused by technical mistakes, such as transposing 12 and 21 in an estate plan. But more typically, the complications in need of fixing are related to the human element.

The human element is the personal and emotional component of wealth management and wealth planning. It's the part of the planning that focuses on understanding everything and everyone that is important to the family—as well as everything and everyone that could be affected by decisions concerning their finances.

Stress testing is therefore a powerful way to identify not just mistakes, but any gaps between what is truly important to a family and what their wealth plan calls for.

Stress testing and the human element

We see two key lessons to be learned from the Super Rich when it comes to stress testing:

If you are even slightly unsure about the viability of your wealth management solutions, you might benefit from stress testing. There are different costs to stress testing depending on what you evaluate and what's involved in putting it through its paces. Still, failing to stress test can lead to much more severe problems for you and your loved ones.

Many times, the most significant failings are due to not enough attention to the human element. Technical proficiencies are absolutely critical. But often the problems result from crossed wires or failing to think through what really matters to you and your loved ones. When conducting stress tests, you need to work with professionals who are both immensely talented and adept with respect to the human element.

Regardless of your reasons for wanting to conduct a stress test—be they looking for errors or searching for better solutions that might not have existed in the past—you can potentially better position your wealth to pursue the exact results and outcomes you seek by putting your plan through its paces.



www.oswegowealth.com

VFO Inner Circle Special Report By John J. Bowen Jr.
© Copyright 2020 by AES Nation, LLC. All rights reserved.

No part of this publication may be reproduced or retransmitted in any form or by any means, including but not limited to electronic, mechanical, photocopying, recording or any information storage retrieval system, without the prior written permission of the publisher. Unauthorized copying may subject violators to criminal penalties as well as liabilities for substantial monetary damages up to \$100,000 per infringement, costs and attorneys' fees.

This publication should not be utilized as a substitute for professional advice in specific situations. If legal, medical, accounting, financial, consulting, coaching or other professional advice is required, the services of the appropriate professional should be sought. Neither the author nor the publisher may be held liable in any way for any interpretation or use of the information in this publication.

The author will make recommendations for solutions for you to explore that are not his own. Any recommendation is always based on the author's research and experience. The information contained herein is accurate to the best of the publisher's and author's knowledge; however, the publisher and author can accept no responsibility for the accuracy or completeness of such information or for loss or damage caused by any use thereof.

Unless otherwise noted, the source for all data cited regarding financial advisors in this report is CEG Worldwide, LLC. The source for all data cited regarding business owners and other professionals is AES Nation, LLC.