

SUNDAY MONEY

SPENDING

For Those Born Rich, Lessons in How to Stay That Way

By JULIE BICK

SOME teenagers with ultrawealthy parents have been known to go prom-dress shopping in Paris, drive an \$80,000, fully loaded Range Rover to college and leave their laundry for the servants to wash. It sounds like an idyllic life, but it also has its perils: What if these children lose their potential to ennui or bad choices and end up squandering the huge sums of money their parents give them?

With \$41 trillion in private wealth set to be transferred in the United States in the first half of this century, both old- and new-money families are wondering how to prepare their children for the riches coming their way.

Tom Rogerson, national director of family wealth services at BNY Mellon Wealth Management in Boston, gives seminars across the country and says multimillionaires often ask him: "How much should I give my children as they are growing into adulthood?" and "When should I give it?"

"That is the wrong set of questions," he counters. "The important question is, 'How do you build confidence and competence in the next generation so they can handle whatever inheritance you leave them?'" Parents may want children to show that they can live on a budget, manage a portfolio, start a career or have a variety of life skills before receiving great sums of money, he says.

This financial readiness, he adds, comes from parents who act as role models when it comes to their family values, enforce limits and consequences and find ways to offer practical and continuing financial training.

In a survey of affluent families, PNC Wealth Management of Pittsburgh found that only 27 percent of parents said they had shared or discussed the family budget with their teenage children.

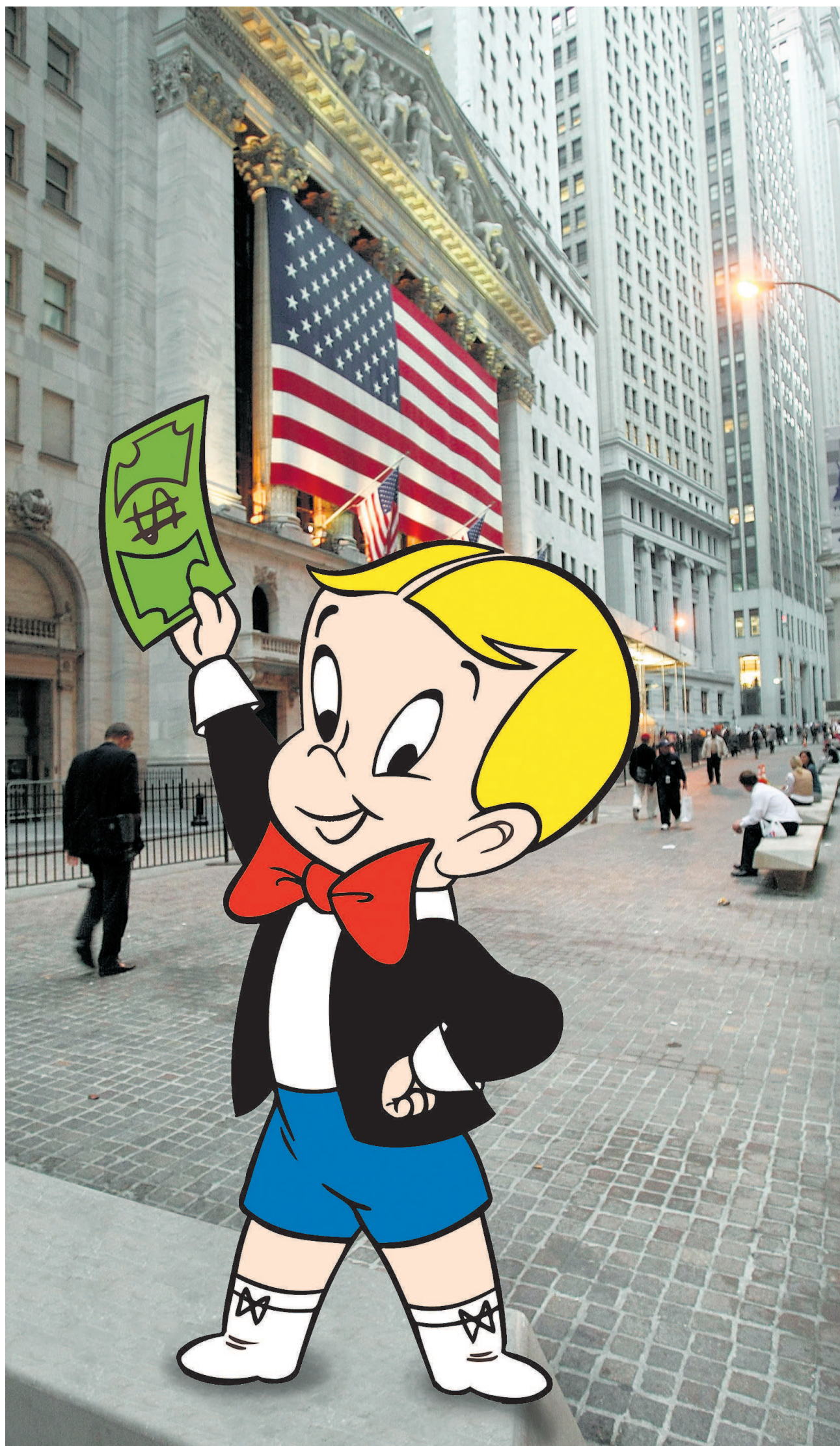
While some families play down their wealth and its history, others incorporate their legacy as an important aspect of child-rearing.

Herbert Gowen, 52, of Belmont, Mass., is part of a family whose fortune began with a steamship company in the 1800s. Although family members now number more than 90 and are dispersed around the country, the family still wants to retain its hallmark values of "prudent financial conservatism, entrepreneurial creativity and philanthropy," Mr. Gowen says. He says his siblings and cousins work hard to impart these values to their children, who are nicknamed "generation fivers" because they are of the fifth generation, beginning with the man who started their fortune.

This year, they engaged Joline Godfrey, author of "Raising Financially Fit Kids," to join their annual summer family weekend to teach the youngest generation about saving, spending and sharing. The preteens made posters showing what they would like to spend their money on and what causes they would donate to. Teenagers learned about consumer culture. Twenty-somethings received instruction on starting a small business and the financial life skills appropriate to new college graduates. Their parents were given tips on how to continue the lessons over time.

Mr. Gowen and his cousins are starting a newsletter to help keep the family connected regarding investments, family news and the values they want to engender. The first issue will feature a young cousin who saved money she made doing barnyard chores to sponsor medicine, meals and school supplies for a young boy in Guatemala.

"Our children have parents who are teachers, pastors, lawyers, not business magnates who talk commerce over dinner as our great-grandparents did," Mr. Gowen says. "They will inherit a substantial amount of money, but families grow faster than family fortunes, so we want to make sure our children are financially savvy and will do good things with their inheritance."



HARVEY ENTERTAINMENT (RICHE RICH); ILLUSTRATION BY THE NEW YORK TIMES

Most wealthy parents aspire to raise their children with middle-class values

but with an upper-class balance sheet, says Kristi Kuechler, director of the Institute for Private Investors, based in New York. Eighty percent of its members have investable assets of at least \$50 million, and her organization tries to help people become more sophisticated

stewards of their wealth.

The challenge, she says, is how to convey the importance of those traditional values of hard work, accomplishment and self-reliance to young people whose wealth could permit them to pursue none of those things.

A family's charitable foundation or business can be a bridge between generations — and a way to share both family values and financial acumen. Some wealth managers advise bringing in the next generation, starting in the teenage years, to work alongside the older generation. Others, like Sharna Goldseker, a vice president at the Andrea and Charles Bronfman Philanthropies in New York, also advise parents to help their teenage and young-adult children find peers, external mentors, internships and hands-on practice so they can come to the family enterprise or philanthropy with their own set of experiences and self-confidence.

Ms. Kuechler also advises parents to make sure that their heirs receive formal investor education so that they can interact confidently with their financial advisers and ask the right questions.

"It can be intimidating meeting with your money managers," Ms. Kuechler says. "Often, they show up with graphs and charts, discussing returns and ratios without giving the investor the appropriate context to understand them."

Many wealth management firms do provide educational opportunities for their high-net-worth clients. U.S. Trust, for example, offers seminars and workshops to help family members of all ages understand the complexities of wealth, says Lynn Davis, head of wealth structuring for U.S. Trust.

Relationship managers at the company, like Adrienne Iglehart, a senior vice president, may consult with family members one on one. "I might periodically meet with a teenager and say, 'Your parents set this fund up for you; let's talk about how it's being invested,'" she said. She also introduces concepts like asset allocation and total return on investment.

SOME parents take financial education into their own hands. One father in Silicon Valley, who did not want to give his name because his children did not know that they will inherit millions of dollars, gave his 13-year-old daughter a large monetary gift on the occasion of her bat mitzvah. Instead of asking her to put it into a college fund, or donate to a charitable organization — the girl had already donated all other gift money she had received to charity — he helped her invest it in mutual funds so she could get hands-on financial experience with real outcomes.

Every six months, they will research market trends together and make changes to the portfolio as necessary. "It's the drip method of learning, a little at a time," he said, "rather than throwing it all at her when she's 21."

The teenager is also expected to go to college and to find a career. "My daughter is being raised in abundance," he said, "but unless she has her own accomplishments, she won't be happy when she grows up."

Wealthy parents often wonder about when to tell their children about the family's money — or that they will inherit a great deal of it. Telling them too early may disable a budding career, but telling them too late may squander the time needed to teach them how to manage it.

While independence in children is highly prized, Mr. Rogerson counsels his clients to promote interdependence, too. To avoid siblings fighting over the family fortune when their parents are gone, he recommends that they work together as they are growing up on less confrontational subjects like philanthropy or planning the family vacation.

"Teach them to rise above small things and look at the overall goal or problem," he advises. "You can't leave last will and testament instructions long enough to impart those kinds of lessons." □

FUNDAMENTALLY

PAUL J. LIM

Maybe Inflation Is More Than a Sideshow

BY many measures, inflation is rising — yet investors seem to be thinking less about it.

Look at the numbers: In July, consumer prices were up 2.4 percent over the same month the previous year. Gold was trading at \$660 an ounce. Crude oil was hovering at around \$75 a barrel. And a survey of money managers by Merrill Lynch showed that a majority on Wall Street feared that inflation would creep higher.

Fast forward to today. The most recent Labor Department inflation report, based on September data, shows the Consumer Price Index climbed 2.8 percent over the past year. Gold prices are now around \$780 an ounce. Oil recently hit \$90 a barrel for the first time. Yet even against this grimmer backdrop, less than a third of fund managers now think that inflation is a threat.

Of course, these fund managers aren't alone in believing that inflation is either dead, dying or no longer a serious concern.

Even the Federal Reserve is talking less about inflation as it focuses on trying to stoke an economy that's being pressured by ailing credit and housing markets.

This week, investors will pay particularly close attention to the Fed to see whether it will cut a key short-term interest rate for the second time in as many months — and to see whether the Fed's views on inflation continue to evolve.

In August, the Fed made clear that it wasn't convinced of a "sustained moderation in inflation pressures."

But a month later, inflation went from being a

front-burner issue to almost an afterthought. After its Sept. 18 meeting, the Fed said it cut rates by half a percentage point to "forestall some of the adverse effects on the broader economy that might otherwise arise from the disruptions in financial markets and to promote moderate growth over time."

And what about inflation? The central bankers indicated that "some inflation risks remain" but also pointed out that "readings on core inflation have improved modestly this year."

This shift in language — and policy — puts the Fed "in a funny corner," said Jeffrey L. Knight, chief investment officer of the global asset allocation team at Putnam Investments in Boston. Mr. Knight said the Fed clearly believes that it must "liquefy the credit markets" to lend support to an economy that's slowing. "On the other hand, by doing so, they will be fanning the flames of the very risk that they purportedly were most concerned about two months ago," he said.

To be sure, many investors and economists are convinced that inflation is under control. And a number of government statistics support this.

For instance, so-called core inflation readings, which strip out volatile food and energy prices, have been mild for some time. In fact, according to the Labor Department, core consumer prices have been growing at a seasonally adjusted annual rate of just 2.3 percent for the first nine months this year. That's down from 2.6 percent last year.

"Inflation, despite some sharp increases in

food and energy prices, has really been fairly tame on a year-over-year basis," said Paul L. Kasriel, director of economic research at Northern Trust in Chicago.

But Michael J. Cuggino, manager of the Permanent Portfolio, a mutual fund, says we shouldn't rely exclusively on core C.P.I. data because "in reality, businesses need energy and people need to eat." And government data show that the costs of food and energy are going through the roof.

For example, in the first nine months this year, food and beverage prices rose at a seasonally adjusted annual rate of 5.7 percent. Transportation costs jumped at a 6 percent annual clip. For energy, the figure was even higher: nearly 12 percent.

The bottom line is that "inflation is still a risk," Mr. Cuggino said, especially now that "there's no longer that same level of diligence there was with respect to keeping inflation down."

In addition to an accommodative Fed, there are a couple of reasons that investors may want to keep an eye on inflation:

RIISING PRICES IN CHINA In the past few years, the United States economy has essentially been importing deflationary pressures by buying goods from China. And that's kept overall prices in check.

But Thomas H. Atteberry, co-manager of the FPA New Income fund, notes that inflation in China has begun to soar as the economy grows and as millions of new workers a year join China's burgeoning urban labor market.

Indeed, inflation in China was running at 6.2 percent, year over year, in September, versus 6.5

percent in August. Both figures were well above the government's target of a 3 percent rate of inflation for 2007. "Given that we import so much from China," Mr. Atteberry said, "this certainly doesn't help."

THE FALLING DOLLAR A weakening currency has always been thought to be inflationary, because consumers and businesses require more dollars to buy goods from overseas.

Ned Davis Research studied dollar declines back to 1974 and found that when the dollar has dropped more than 4.3 percent annually against a basket of foreign currencies, the Consumer Price Index has tended to accelerate by half a percentage point more than it would otherwise. Over the last 12 months, the dollar has fallen more than 10 percent against a basket of foreign currencies.

Of course, this relationship isn't perfect. After all, the dollar has been tumbling for nearly six years, and inflation has been rather benign throughout this decade. But Gordon B. Fowler Jr., chief investment officer at Glenmede Investment Management, an institutional money manager based in Philadelphia, says that "if there's a run on the dollar, that would be very bad for inflation."

That brings us back to the Fed. Robert D. Arnott, chairman of Research Affiliates, an investment management firm in Pasadena, Calif., says the Fed is "caught between a rock and a hard place." If the Fed leaves rates alone, he said, it "risks the markets cratering and the economy going from slowdown to possible recession." But if it lowers rates again, he said, "the dollar would be at further risk."

And that could prompt more inflation, which would be just as bad for the economy. □

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