By Bill Spitz, Principal

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The Third Generation Curse— Not If You Do It Right!

You have undoubtedly heard the phrase "rags to riches to rags." A more formal admonition is "The Third Generation Curse" of which there are several versions. One says that 90% of wealthy families will lose their wealth by the third generation. Another states that they will lose 70% of their wealth by the second generation and 90% by the third. Whatever the actual trajectory, I like the humorous adage "Generation One makes it, Generation Two spends it, and Generation Three blows it." In reality, there is no solid evidence that this pattern is widespread and there are certainly many examples of families that have preserved and grown their wealth through many generations. Alas, there are also very poignant examples of those who have blown it all!

Because they are fascinating, I relate the stories of several well-known families that have progressed from "shirtsleeves to shirtsleeves" with emphasis on the key factors underlying the decline in their financial circumstances. As you will see, there are many commonalities. I then focus on several families that have actually done it right, and in both cases, the key ingredients are cohesion, strong values, purpose, and inclusive governance. The paper concludes with a number of questions that each family should ask itself in pursuit of multi-generational wealth preservation.

"Generation One makes it, Generation Two spends it, and Generation Three blows it."

DIVERSIFIED TRUST

J. Ogden Armour

THE ARMOUR FAMILY

In 1901, J. Ogden Armour inherited the meat packing business his father had started in 1867 and proceeded to grow its sales from $100 million to just under $1 billion by 1920. One interesting aside is that the Company's most successful salesman was Dale Carnegie who became famous for his self-help books and courses. It is difficult to precisely gauge the size of personal fortunes during that era, but Armour's was estimated at $150 to $200 million. The popular press deemed him the second richest person in the world, and he was placed in the 6th spot in the initial Forbes ranking of the wealthiest Americans in 1918. Armour loved the high-life and was prone to ostentation leading to his construction in 1908 of Mellody Farms, a 1,200-acre estate in Lake Forest, Illinois containing a 29,000 square foot Italianate mansion. The property, which cost $10 million (roughly $250 million in today's dollars), had its own railroad siding, orchards, greenhouses, stables, a clock tower, and elaborate gardens. The house contained a number of rooms imported in their entirety from European palaces, a bowling alley, marble walls, gold and silver doorknobs, and 210 fireplaces. Consistent with his image as a bon vivant, Armour had a long-term affair with Mary Garden, the most prominent opera star of that day.

The company thrived during World War I due to the tremendous demand for canned meat products, but J. Ogden made a critical mistake betting that the war would continue for an extended period leading him to acquire large inventories at inflated wartime prices. When the war ended, demand and prices fell dramatically and the company suffered losses between 1919 and 1921 estimated at more than $125 million leaving it with accumulated debt of $144 million. In an attempt to reverse his collapsing fortunes, Armour made a disastrous bet on wheat future contracts and suffered large losses on other investments including a 6,000-acre farm in California that failed because he never secured sufficient water rights. Armour later told friends "I lost a million dollars a day for 131 days." He was forced to surrender his ownership in the company and was ousted as its President in 1923. The company changed hands a number of times over the ensuing decades and several divisions were sold or discontinued.

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The remaining product lines are now owned by Smithfield Foods and ConAgra Brands. Mellody Farms became the campus of Lake Forest Academy after Armour was forced to turn it over to creditors in 1927. He died just a few months later leaving an estate consisting of only $25,000 in cash and shares in several stocks that were thought to be worthless. Happily, one of them eventually became quite valuable allowing his widow to once again enjoy many of the trappings of wealth including an art filled mansion purchased in 1936. She died in 1953 survived by her one daughter who married a wealthy Chicago banker.

As you will soon see, some fortunes are lost as a result of truly bad behavior by family members. This is not one of those cases. Sadly, J. Ogden seems to have been a relatively decent guy who was upended by several well-intentioned but ultimately poor business decisions.

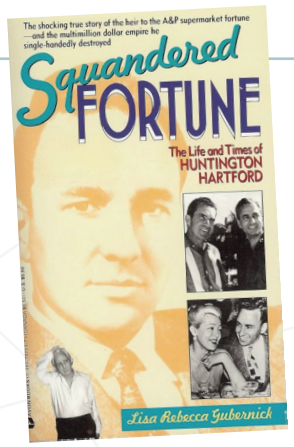
George Huntington Hartford

THE HARTFORD FAMILY

George Huntington Hartford acquired control of the Great Atlantic and Pacific Tea Company (A&P) from its founder in 1901 leading the company until his death in 1917. His estate was valued at roughly $125 million which equates to about $20 billion in today's dollars. While he remained the titular head of the Company during his lifetime, Hartford actually turned over day-to-day management to his sons George and John in 1908. They jointly ran it until their deaths in the 1950's. In its heyday, A&P was the largest retailer in the world and the two brothers were featured on the cover of Time Magazine in 1950. Unfortunately, A&P began a prolonged decline shortly thereafter leading to its sale to the Tengelmann Group of Germany in 1981 for $7.375 per share. The stock had peaked in 1961 at $70. The brothers' respective estates, which consisted primarily of proceeds from the sale, were largely donated to the John A. Hartford Foundation which remains in operation today with assets of roughly $700 million.

The interesting part of the story involves a descendant of George and John's brother Edward V. Hartford. Edward was not involved in the Company but was instead an automobile enthusiast who perfected the shock absorber and received patents on an electric starter and electric brakes. Edward died in 1922 at age 51 leaving the majority of his share of the family fortune (again, proceeds of the sale of A&P) to his son Huntington Hartford. Huntington's inheritance was valued at approximately $90 million which equates to about $10 billion today.

Huntington squandered virtually the entire amount in a life that could best be described as the ultimate soap opera. He rubbed elbows with luminaries Salvador Dali, Errol Flynn, Charlie Chaplin, Howard Hughes, and Aristotle Onassis, and his best friend was John Jacob Astor IV. Huntington was married and divorced four times producing five children. One son committed suicide and a daughter died of alcohol and drug abuse. He owned homes in France, Palm Beach, London, and New York, as well as an art collection that included works by Manet, Wyeth, and Dali, among others. In addition to over-the-top personal spending, Hartford became involved in a number of money-losing ventures including the Huntington Hartford Museum, an unsuccessful real estate development in the Bahamas, failed attempts at producing movies and Broadway Shows, a short-lived newspaper, and an automated parking garage. In every instance, he ignored the advice of his investment advisors and attorneys. As his finances dwindled, Hartford began using drugs and increasingly sought the company of derelicts, drug addicts, and other hangers-on who moved into his New York duplex resulting in the theft of silver and artwork. He was physically assaulted by one of them and none of his housemates were willing to call for help when he fell and broke a hip on another occasion. Hartford was eventually hospitalized for a drug overdose and was forced to declare bankruptcy in 1992. Several attempts were made to have him declared incompetent, but the courts ruled that he was in need of psychiatric help but fundamentally sane and able to manage his own affairs. Ultimately, his daughter, Juliet, intervened moving him to the Bahamas in 2003 where he spent his final years in relative seclusion. Hartford died at age 97 in 2008 with few assets other than a trust that he was unable to access. Hartford's life is chronicled in **Squandered Fortune: The Life and Times of Huntington Hartford** by Lisa Rebecca Gubernick. I believe she would agree that Huntington Hartford was the embodiment of The Third Generation Curse. While the declining fortunes of A&P certainly diminished the family's wealth, the sale to Tengelmann generated sufficient funds to provide Huntington and his surviving children with significant assets had he stewarded them wisely.



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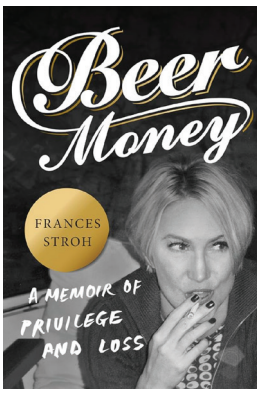

THE STROH FAMILY

The Stroh Family saga is presented in a compelling book by Frances Stroh, a great-great granddaughter of Bernhard Stroh who founded the Stroh Brewing Company in 1850. It is appropriately titled **Beer Money: A Memoir of Privilege and Loss**.

Stroh Brewery grew steadily if not spectacularly during its first century of operation but the fourth-generation leadership decided to accelerate growth through acquisitions. It acquired F&M Schaefer in 1981 and then took on $500 million in debt the following year to purchase the Joseph Schlitz Brewing Company. Suddenly, Stroh's was the third-largest brewer in the U.S. leading Australian financier Alan Bond to offer to purchase it for $1 billion.

The family rejected his offer which would have provided it with a net worth today of roughly $9 billion making reasonable assumptions about taxes, spending, and investment returns. The Company then made a number of strategic errors including largely missing the public's shift to light beer and spending insufficient amounts on marketing at a time when Coors was challenging it on all fronts. After being replaced as the third largest brewer, the family agreed to sell the Company to Coors in 1989 for $425 million but Coors backed out of the deal several months later for unknown reasons. Stroh's continued to operate but its market share had fallen from 13% to 7.6% by 1991. In a desperate attempt to reinvigorate the Company, CEO Peter Stroh repeated his prior mistake by taking on additional debt to purchase G. Heilman for $300 million. Additionally, the family made disastrous investments in biotech companies and Detroit real estate. The Company's fortunes continued to deteriorate, and concerned that it would be unable to meet debt payments, Stroh's was sold in pieces in 1999 to Miller Brewing and Pabst for roughly $350 million. A substantial portion of the sales proceeds was used to satisfy debts and pension liabilities leaving only a modest fund to support thirty family members who had maintained an opulent lifestyle for many years as a result of the Company's generous dividends. Many owned mansions in tony suburbs of Detroit with the accompanying expenditures on servants, private school tuitions, club memberships, and collectibles. That fund was tapped out by 2008.

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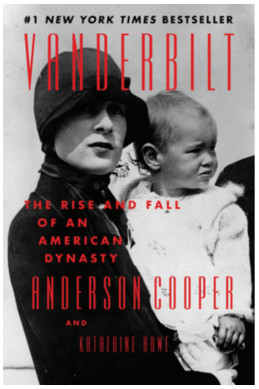
This seems to be another case of decent people who were prone to poor business decisions resulting, in part, from improper governance. While there were in fact outside directors, they were expected to basically rubber-stamp the decisions of the family members who constituted the majority of the Board.

While not the primary source of the family's financial problems, it is worth noting that several members of the Stroh Clan suffered from mental health issues. Frances Stroh's father, Eric, was an alcoholic and all four of his children were expelled from boarding schools for alcohol and drug offenses. Sadly, Frances' brother Charlie had a history of emotional and drug problems leading to his death at age 43 when he fell from a tenth-floor hotel balcony.



THE VANDERBILTS

I was tempted to exclude the Vanderbilts from this paper because the family has been the subject of a number of excellent books including **Vanderbilt: The Rise and Fall of an American Dynasty** by Anderson Cooper, a direct descendant. However, I decided to include an abbreviated history because the family represents the classic example of the impact of profligate spending over many generations. Rather than slog through the entire family tree, I focus on select individuals who are particularly interesting and important.

The Commodore died in 1877 leaving 95% of his $105 million estate to his son William Henry (Billy) Vanderbilt. Comparing net worth during different periods is an inexact science, but the Commodore's wealth probably ranked second only to that of John D. Rockefeller. William's siblings unsuccessfully challenged the Commodore's will in a very public and embarrassing court case. In order to avoid further public exposure, Billy voluntarily increased their bequests. In contrast to the version of the Third Generation Curse which states that 70% of wealth will be depleted by the second generation, Billy actually doubled the family fortune in the remaining nine years of his life. While he had eight children who survived to adulthood, he left the majority of his estate to two sons: Cornelius II and William Kissam Vanderbilt. Together with wives who actively competed with one another, the two of them embarked on a spending spree of epic proportion.

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George Washington Vanderbilt II purchased 125,000 acres in Asheville, NC and constructed the Biltmore Estate which contains some 250 rooms. That property is still owned by his descendants.

Along with his wife Alva, William owned a large home at 660 5th Avenue in New York they humorously named Le Petit Chateau. In addition, they built the famous Marble House in Newport, RI, a 600-acre property and mansion on Long Island called Idle Hour House, and a home in France known as Chateau Vanderbilt. William was an avid horseman owning racing stables in both the U.S. and France, and was a founder of the Jockey Club. Finally, he owned a racing yacht called Defender as well as a large steam yacht which was named Consuelo for his daughter who married the Duke of Marlborough. Not to be outdone, William's brother Cornelius II and his wife Alice owned an equally large mansion at 1 West 57th Street in New York as well as The Breakers, a 70 room "cottage" in Newport.

While Cornelius II and William inherited the bulk of their father's estate, their siblings received enough funds to live like Vanderbilts. Frederick owned homes at 450 5th Ave., Newport, Bar Harbor, Hyde Park, and in the Adirondacks. And, George Washington Vanderbilt II purchased 125,000 acres in Asheville, NC and constructed the Biltmore Estate which contains some 250 rooms. That property is still owned by his descendants.

Moving to the next generation, Reginald Claypoole Vanderbilt was the son of Cornelius II and his wife Alice. On the death of his father in 1899, Reggie received $7.3 million plus another $500,000 that he inherited from his brother Alfred who died on the Lusitania. Reggie proceeded to gamble, drink, and spend his fortune dying of cirrhosis at age 45. At his death in 1925, accumulated debts forced the sale of his two homes and all of his personal possessions. The only remaining asset was a trust fund that he was unable to touch, half of which was designated for his daughter Gloria Vanderbilt who was to become a well-known fashion designer and socialite. Her inheritance was equivalent to roughly $60 million today, and Gloria also earned a good deal of money during her fashion career. However, as a result of poor business management and excessive spending, her son Anderson Cooper was told at an early age that he would not receive any inheritance, and he actually subsidized Gloria in her later years.

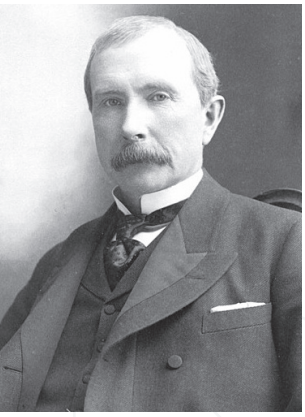
DIAGNOSIS

Reviewing these four vignettes, there are perhaps four clearly identifiable causes of diminished wealth. The first, which was present in all four, is excessive spending, particularly given that many family members were not employed instead relying entirely on inherited wealth. The second was concentration of wealth in a single business that deteriorated or failed. Third, poor investments plagued the Armour, Hartford, and Stroh families. The final one, which was particularly important in the Vanderbilt case, is the passage of time and the necessity to divide assets among an ever-growing number of family members. It is said that families grow exponentially whereas assets grow arithmetically. To wit, Anderson Cooper is a member of the 6th generation of Vanderbilts. While not necessarily causal, it is worth noting that many of these families were also troubled by addiction of one sort or another.

I reviewed a number of other families that fell on hard times yielding the following list of additional contributing factors:

- Poor or non-existent tax and estate planning
- Ill-behaved family members, and in a few cases, corrupt advisors
- Lack of a stewardship mentality among family members
- Lack of financial literacy in succeeding generations
- Family conflict and poor communication
- Poor family governance including the lack of an adequate succession plan for family leadership

Having focused on the dark side of wealth preservation, I now turn to a brief discussion of two families that have maintained their wealth over long time periods.



John D. Rockefeller

FAMILY VALUES

Prior to his death in 1937, John D. Rockefeller donated roughly $500 million to charity, and his son, John D. Rockefeller, Jr., gave away a similar amount in a lifetime devoted to philanthropy. Importantly, those sums were in current and not today's dollars. In the third generation, David Rockefeller's philanthropy totaled as much as a billion dollars, and his art collection and valuables were auctioned off after his death in 2017 generating another $800 million for charity. Yet, despite this incredible level of generosity, Forbes estimates the family's current worth at $11 billion more than 100 years after John D. became the nation's first billionaire. The Rockefellers have always been fairly secretive, but David Rockefeller, Jr. gave a rare interview in 2018 in which he discussed the family's approach to preserving its wealth.

First, the Rockefellers did an excellent job of creating and maintaining a durable structure. John D. Rockefeller opened the nation's first family office in 1882, and the family made extensive use of generation skipping trusts and many other estate planning tools. While not minimizing the importance of detailed wealth management strategies, David, Jr. points to four overriding factors leading to their success:

- First, the family has two meetings a year to facilitate discussion, consider new projects, introduce new family members, and acknowledge important milestones. All family members have an opportunity to voice opinions and concerns. As a result, the family has been largely united and not plagued by feuds, lawsuits, and tragedy. These meetings are critical because the family now contains more than two hundred descendants.
- He also believes it is important to maintain and communicate the family history. The semi-annual meetings as well as less formal get-togethers at family estates provide a forum for each generation to become educated on family lore.
- The family has not been centered around a business since Standard Oil was broken up by the Justice Department in 1917. This eliminates fights as to who manages and benefits from the business. It also contributes to investment success as a result of diversification and liquidity. (Remember the Armour and Stroh business difficulties!)
- Most important, the family is driven by a set of shared values, the key one being active participation in philanthropy.

Inscribed on the wall at Rockefeller Center is the following, "For every right implies a responsibility; every opportunity, an obligation; every possession, a duty."

"For every right implies a responsibility; every opportunity, an obligation; every possession, a duty."

FAMILY VALUES II

Having reviewed a number of families that have achieved enduring wealth, I conclude there is no single optimal model. Despite the woes of the Armour and Stroh's Companies as well as David Rockefeller's statement regarding the perils of family businesses, a number of families have indeed thrived by being centered around a family-owned company. Cargill and Mars are two prime examples. However, I find S.C. Johnson & Son, Inc. particularly interesting because its logo is **SC Johnson- a family company at work for a better world**.

Founded in 1886, the company is entirely owned by the Johnson family and members of five generations have served as CEO. Additionally, three of the nine director seats are currently held by family members. Second generation CEO Herbert Fisk Johnson, Sr. died suddenly in 1928 without a will leading to a battle for control between two siblings. A settlement was reached in which the company was split 60/40 between Herbert Fisk Johnson, Jr. and his sister Henrietta. This unpleasant interlude taught the family a great deal about family dynamics and succession leading to smooth transitions since that time. As was the case with the Rockefellers, the Johnson family has frequent family meetings to ensure open communication and prevent conflict. The family's three Board seats are divided between the two branches and a number of family members work for the Company in various capacities. In fact, one family member suggested that there are at least ten CEO succession candidates among the family members currently working at the Company. As a private company, not much is known about the finances of either the Company or the Johnson family, but annual revenues are estimated at $12 billion and Forbes pegs the family's net worth at $38 billion.

SCJohnson
A family company
at work for a better world

The most interesting thing about the Company is its strong and very public statement of principles which absolutely mirror the values of the family.

The most interesting thing about the Company is its strong and very public statement of principles which absolutely mirrors the values of the family. SC Johnson instituted a profit-sharing plan for employees in 1917, long before that was common practice, and it has donated 5% of pre-tax profits to charity every year since 1937. In 1976, fourth-generation CEO, Sam Johnson, formalized the family's core values in a document titled **This We Believe**. It provides detailed information on the Company's beliefs regarding the five groups of people to whom it is responsible and whose trust it must earn: Employees, Consumers, the General Public, Neighbors, and the World Community. Once again, this document predated the common practice today in which companies publish mission statements, ESG statistics, community impact reports, and so on. This We Believe is worthwhile reading for both families and corporate leaders.

The key point is that the Johnsons faced a crisis similar to ones that have destroyed some other families, but were able to regroup and thrive through organization, effective communication, and unanimity of purpose.

THE THIRD GENERATION CURSE-NOT

Even the most carefully crafted wealth strategies may not be successful unless they are implemented in a thoughtful framework based on proper family values and dynamics. Therefore, I close with the "softer" side of preserving wealth with the hope that I will motivate families to discuss these critical issues. I believe even those families without great wealth will benefit from such a discussion. Among the critical topics are: Shared goals and objectives, Family Cohesiveness, Governance, and Mentoring. A detailed discussion of them would require a tome, so I have simply listed a few items that each family should carefully consider when working with their advisors to create a comprehensive wealth management plan. These topics are presented in the form of questions which highlights the fact that no template fits all.

Shared Goals and Objectives

- What is the purpose of this wealth? What is the family trying to accomplish?
- What is our objective with respect to providing wealth to future generations?
- How do we ensure that inherited wealth does not take away the motivation of future generations to be successful in their own right?
- How do we take into account differing objectives among various family members?
- What is our time horizon-how long do we want this wealth to last?
- What is the role of philanthropy in our plan?

Family Cohesiveness

- How do we create a shared history and culture?
- How do we promote optimal communication within the family?
- How do we deal with internal family conflict?
- Should we have specific rules of conduct within the family?
- How do we create an inclusive culture based on transparency?
- What form and frequency should family meetings take?

Governance

- What kind of structure will allow the family to manage its wealth most effectively?
- Which family member will lead this structure and how will that leader be chosen?
- What is our leadership succession plan?
- What will be the role in governance of other family members?
- Do we need a written family mission statement as well as documented policies and procedures?
- Do we have a family contingency plan in the event of unforeseen events?

Mentoring

- How do we ensure financial literacy among future generations?
- More generally, how do we promote the value of education?
- How do we create a culture of stewardship?
- When is the right time to bring younger descendants into the wealth management process? Should we assign responsibilities to them as a form of "on the job training"?

"Don't let money run your life, let money help you run your life better."

— John Rampton- Serial Entrepreneur, Investor, and Blogger

ENDURING WEALTH

Anyone who has taken an economics class has heard of "necessary" and "sufficient" conditions. In wealth management, careful planning as well as optimal tax, estate, and investment strategies are necessary, but not sufficient. Maintaining wealth requires commonality of purpose, cooperation, organization, a constructive attitude, effective communication, and concern for the well-being of both current and future generations.

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