# THE 12 SUDDEN WEALTH PRINCIPLES

## Inheritance eBook

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GROWING MORE THAN WEALTH

The following eBook includes excerpts from:

# THE SUDDEN WEALTH SOLUTION
# 12 PRINCIPLES TO TRANSFORM SUDDEN WEALTH INTO LASTING WEALTH

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# INTRODUCTION
## THE SUDDEN WEALTH PRINCIPLES

Everything changes. Those are the words I've heard time and time again over the past two decades from my clients who became sudden wealth recipients. Sudden wealth is a roller coaster ride of emotions – from the highest highs to the lowest lows. Sudden wealth is often portrayed as creating dire consequences for its recipients, but it can be an amazing opportunity that improves your life and those around you. I've worked with enough sudden wealth clients over the years to see patterns – what works and what doesn't. With proper guidance, and a willingness to stick to the 12 Principles outlined in this book, you can avoid the common pitfalls that so often destroy money, and instead transform your sudden wealth into lasting wealth to create a better life for yourself and others.

# PRINCIPLE 1
# TAKE CONTROL

*If you don't have a plan for your wealth, someone else will.*

Sudden wealth can turn your life upside down. Clients have described it as being stripped of everything that they are used to and comfortable with, and then being dropped into a strange environment. Imagine traveling to a foreign land where you don't know the language, rules, laws, or customs. Furthermore, imagine you don't know anyone and you have trouble communicating with your friends and family back home. Exciting? Maybe. Unnerving? Absolutely.

I like to travel to exotic places around the world. These trips are a short vacation from my normal responsibilities. Each trip is an exciting adventure and there are very few things I look forward to more in my life. But when the wheels hit the ground back in the U.S., I immediately feel a sense of relief. The thrill I experienced from the unfamiliar is now replaced by the comfort of familiarity. I can relax. A 737 and about 15 hours makes it possible for me to return home, but for sudden wealth recipients, it can take months or even years for them to feel comfortable with their new position and responsibilities.

Some sudden wealth recipients manage their stress and uncertainty well, while others struggle – some never fully adapting to their sudden wealth and the changes it entails. One of the key differences between those who manage this process effectively and those who do not is how they view their role in the process.

Sudden wealth recipients who take a passive role tend to struggle. They view themselves not as a participant in the process, but as an observer. They sit back and let the situation control them. They wait to be told what to do. They accept the suggestions and advice of others because they are not comfortable asking questions or making decisions for themselves. Sudden wealth recipients who take control and own the situation fare much better than the ones who sit back and hope others will take care of it for them.

## WHAT SURVIVORS DO DIFFERENTLY

What does a plane crash and sudden wealth have in common? In the first few days of a windfall, sudden wealth recipients can experience shock and disassociation. Both are highly charged events that spike our adrenaline and cortisol levels and initiate a flight, freeze, or fight response. Contrary to Hollywood movies, research shows that we don't panic, but instead freeze and respond to the crisis with paralysis. Author and researcher of *The Unthinkable: Who Survives When Disaster Strikes and Why,* Amanda Ripley, writes in *Time Magazine,* "Panic is rare. The bigger problem is that people do too little, too slowly. They sometimes shut down completely, falling into a stupor."[1]

The solution, say the experts, is to keep emotions under control, but maybe even more importantly, to live in the moment and to react based on what is actually happening. Instead of asking, "Why me?" survivors focus on the facts and ask better questions, such as, "What is happening right now and what can I do about it?"

The sudden wealth recipients who respond best to their windfall are those who control their emotions, accurately assess the situation, and take responsibility for doing what is required. Fortunately, you don't have to have all of the answers. It's completely normal and understandable that as a result of your sudden wealth, you will be in new situations and not know what to do.

Former Navy SEAL, Cade Courtley, who trains people in how to survive disasters, says, "Don't wait for someone to come and rescue you. As an officer in the military, I was always told . . . you can't sort of wait for somebody to help you out. You can't expect somebody will be there to assist."[2]

For almost everyone, sudden wealth is a novel and awkward experience. Most people just do not have the experience or knowledge to deal with the situation they find themselves in. It's okay to feel like a foreigner in a strange land, but you cannot be passive. At best, passivity leads to indecisiveness, and at worst, to being taken advantage of. If you don't assume control, others will. If you're lucky, they will have your best interests at heart, but they may not.

Instead of letting sudden wealth happen to you, stand up, take charge, and own it. Whether you have just learned you will be coming into sudden wealth or if you did years ago, it's never too late to take control. Here's how you can get into the driver's seat…

## BUILD YOUR CONFIDENCE

To minimize the "freeze" response, or inclination to defer responsibility to others, you need to have the belief that you can handle whatever comes at you. Psychologists call this self-efficacy – this is the strength of your belief in yourself, whether that be your ability to handle a task, reach a goal, or succeed in a certain situation. Even if you have limited financial, tax, or legal

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[1] Ripley, Amanda. "A Survival Guide to Catastrophe," Time. Time Inc., 29 May 2008. Web: 4 December 2013.."

[2] Strauss, Eric M., Denise Martinez-Ramundo, and Lauren Effron, "20 From 20/20: Former Navy SEAL's Guide to Surviving Almost Anything," ABC News. ABC 20/20, 23 Aug. 2013. Web: 4 December 2013.

experience, your positive belief that you will rise to the occasion and manage the situation will promote a more successful outcome. Here are a few ideas on how to build your confidence...

### *SMALL SUCCESSES*

One of the best ways to build your confidence is to get a few small successes under your belt. Researching and contacting a few attorneys is a success. Telling a family member "not now" when they ask for a loan is an achievement. Signing up for a personal finance workshop is a small success. Attending a Debtors Anonymous meeting to learn how to control your spending is a success. Focus on small steps you can take – with one building on the other.

### *FIND A ROLE MODEL*

The research shows that those with a mentor can achieve greater financial success.[3] As a sudden wealth recipient, if you can find a good role model you may be able to successfully navigate through the financial maze a little easier. Have your attorney or financial advisor share stories of their clients who have taken control and used their sudden wealth to create a better life. These vicarious experiences can boost your own self-confidence.

### *REVIEW PAST SUCCESSES*

Chances are, you've never experienced sudden wealth before, but you probably have countless experiences where you mastered a difficult task or achieved a challenging goal. Re-experience as many of these successes as possible, as each one will further validate your ability to succeed in new or demanding situations, even if you started with fear and hesitation.

### *ASK OTHERS*

Have a best friend or close family member give you a pep talk. Ask them to give you specific examples of past successes and why they think you can step up to the task of managing your windfall.

### *VISUALIZATION*

Mental practice has been shown to have a positive and significant effect on performance.[4] Visualize taking control of your situation and making your life a success. Even this structured daydreaming can have a positive impact on your confidence.

## DRIVER VERSUS PASSENGER

Sudden wealth can create an interesting power dynamic. On one hand, it's your money and your life, your advisors work for you, you are in charge and you call the shots; you are the driver. On the other hand, most sudden wealth recipients aren't comfortable enough with the tax code, laws, or financial strategies to make smart decisions. You must rely on your team to guide you; you are the passenger.

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[3] Fisher, Anne. "Being a Mentor Could Boost Your Own Career." CNN. CNN Money, 13 Mar. 2007. Web: 6 November 2013.

[4] Driskell, James E., Carolyn Copper, and Aidan Moran, "Does Mental Practice Enhance Performance?" *APA PyschNet*. American Psychological Association, Aug. 1994. Web: 8 November 2013. <http%3A%2F%2Fpsycnet.apa.org%2Findex.cfm%3Ffa%3Dbuy.optionToBuy%26id%3D1995-00363-001>.

The driver vs. passenger is a critical distinction. Some sudden wealth recipients go too far one way or the other. For example, they may throw their hands up in the air and relinquish all control to their team because they feel confused and overwhelmed. Or on the flipside, they become involved in every detail and make it difficult for the experts to do their jobs. Both scenarios are disastrous. The key is to identify the areas where you will be the driver and the other areas where you will be the passenger. Here's what I've found to work best.

Be the driver when it comes to defining your goals, objectives, and vision. Sometimes, well-meaning attorneys, CPAs, and financial planners will place a higher emphasis on form over function. They may devise sophisticated strategies that are financially correct, but in doing so, compromise your overall vision and desire for simplicity. They may dazzle you with big words and highly technical details, but make sure you are vocal about what you want.

It also makes sense to be the driver when it comes to setting expectations for your team. It is worth repeating: Your advisors work for you. It doesn't matter how little education or experience you have or how many letters they have after their name, you pay them to perform a service. As a result, you should set expectations, such as how often to meet, how they should best communicate with you, and how well they should explain things.

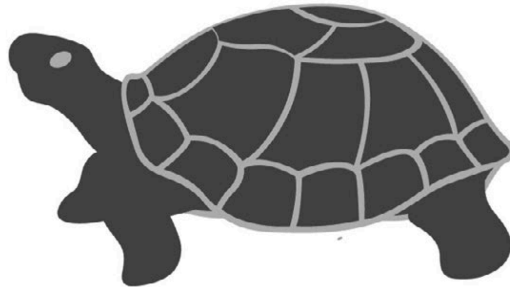
Be the driver as it relates to asking questions and ensuring you understand what is happening. Every question you have is valid and deserves an explanation. Most people only experience one sudden wealth event in their lives, but their advisors may handle hundreds or even thousands. What is "obvious" or "common sense" to them, may not be to you. Don't be shy about asking a lot of questions or having your advisors explain things until you understand them.

You shouldn't attempt to be the driver in every situation, however. There is a reason you are hiring the best attorneys, CPA, and financial advisor you can find. They have decades (or should!) of knowledge and experience. You're paying them, so let them do their jobs. This means giving them the freedom to explore different strategies, to have conference calls with the other members of your team, and to keep an open-mind to their ideas and advice.

I've found that the best client relationships are the ones where the client paints the big picture of what they want and hope to achieve and then lets the advisors craft the strategy about how to make that happen. Focus on the destination while you let your team figure out how to best get you there.

Don't confuse taking control with taking action or making decisions. We are terrible at making decisions under stress, and if there is anything sudden wealth provides in spades, it is stress. Sometimes, control is making the decision to not make any decisions and to slow down, which leads us to Sudden Wealth Principle 2 . . .

# PRINCIPLE 2
# SLOW DOWN



*Know which decisions you need to make and which you can delay.*

Sudden wealth has been described as a frenzy of emotions, decisions, and requests. Clients have expressed that they feel like a “fish out of water,” where everything is foreign to them. It’s been described as going to bed and waking up in an unfamiliar land where no one speaks their language, yet it’s vital to be able to communicate. One client said it’s similar to the feeling you have when you are dreaming and can’t move – a feeling of agitation and uneasiness, of knowing you should be doing something but not knowing how.

Sudden wealth recipients experience a wide range of emotions – from joy to guilt and euphoria to panic – sometimes on the same day. These wild swings are not conducive to creating a state where you can make the best decisions, and further, these emotional swings are just not fun to experience. The better you are at being able to stay relaxed and focused on what matters most in your life, the better you will feel. But don’t count on your friends or family to help you gain perspective or slow things down. They’re often caught up in the same heightened emotional state as you! They are vicariously experiencing the same highs and lows as you, and in some cases, they may have their own agenda for your sudden wealth.

Fortunately, humans are perfectly adapted to handle a wide range of experiences and environments, but sudden wealth can stretch our abilities, sometimes past the breaking point, because we cannot prepare for it. The sudden wealth event can come out of nowhere, and we are thrust into unfamiliar territory where we are required to make instant life-changing decisions. We just weren’t designed for this. Worse still, the high anxiety of the situation actually makes it harder for us to adapt and make these decisions.

We like to think we are rational creatures who look at all the facts, make analytical comparisons, and arrive at sensible decisions, but that’s just not how we are wired. We are highly emotional beings, and it turns out, highly irrational – especially when under stress.

Sudden wealth forces us into an unfamiliar situation, piles on stress, and does all of this overnight. If we don't take a step back and slow things down, we can make all kinds of bad decisions. When emotions take over, logic and thoughtful consideration go out the window. And even though we can't change our wiring overnight, by understanding our limitations and learning strategies to slow the process, we can minimize mistakes and bad decisions.

## SUDDEN WEALTH STRESS AND MAKING DECISIONS

Would you trust a lizard to help you decide whether it makes sense to take your $48 million lottery win as a lump-sum or an annuity? Or how about deciding whether to quit your job and buy a lake front house or to keep working and buy an ocean view house? Obviously, we'd never consult a lizard for these important decisions . . . or, would we? Neuroscientists and behavioral economists may disagree with you.

According to researchers, our brain is actually comprised of three areas, or what they call the triune brain, meaning three brains. The first and most primitive of these areas is called the reptilian brain. Our reptilian brain, also called our lizard brain by many, controls our breathing, heartbeat, and other critical functions. Our lizard brain does one thing very well . . . it keeps us alive! It's not the part of the brain charged with thoughtful planning and analysis. No, its job is making quick decisions that ensure our survival. On the Savannah, our lizard brain is the most important thing we have to prevent us from being lunch. In today's less life-or-death world, the lizard brain is still important, but it has a hard time distinguishing between the stress of being chased by a lion and the stress of sudden wealth.

Have you ever been in a dangerous situation or a car accident? Do you become nervous when you give a speech? You can thank the second area of our brain, called the limbic brain, or the monkey brain, for this. Why monkey? Think of the limbic brain as being most responsible for thoughts and emotions. The limbic brain controls the release of hormones such as adrenaline and is critical to emotional memories, which is why the highly emotional events from your past stand out and you forget the hum drum experiences.

The third area of the brain is the neocortex, which is the analytical part of your brain that controls planning, organizing, and looking objectively and logically at a situation. If the monkey brain can be identified as a five year old throwing a tantrum, then certainly the neocortex is best represented by the coolness and composure of *Star Trek*'s Dr. Spock.

Have you ever been in an argument with someone where you remained calm and tried to use logic to explain your point, but the other person was loud and worked up? How did your logic work for you? I'm sure that with your analysis of the facts in a rational manner, the other person quickly calmed down and was able to understand your perspective. Not exactly? And now you can begin to see the limits of our rational brain. It works great when all three brains get along but in highly stressful situations, when our hormones and emotions are high, it becomes overpowered by the less logical parts of our brain.

So what does all of this have to do with sudden wealth? More than you think. The sudden wealth experience is highly charged and highly emotional. Even though we are in no physical danger, our hormones start pumping and our lizard and monkey brains take over, just like in a heated argument. It's the same response you might feel if you are pulled over by the police. It

happens automatically and instantly, but unlike a speeding ticket, where the rush subsides after a few minutes, your logical and rational brains can be hijacked for weeks or months during a sudden wealth event. The quality of our life is based on the decisions we make. If we are making decisions based on prehistoric (i.e., lizard) and emotional (i.e., monkey) thinking, we can undermine our finances and relationships.

What's the solution? Some advisors suggest eliminating any decisions during the first six months of receiving sudden wealth. Although this is a noble goal, it is not practical. Making no decisions can be just as destructive as making too many decisions and can cost you millions of dollars in extra taxes and legal and financial problems. It shouldn't be about making decisions or not making decisions. It's about making the right decisions and delaying the others. You don't want to feel paralyzed from making decisions, so it's important to distinguish the decisions you can and should make versus the decisions you shouldn't make immediately after experiencing a sudden wealth event. But how can you calm your prehistoric and emotional brain and make rational decisions?

## HOW YOU CAN TAKE CONTROL

Here's how you can take control and slow the rush of decisions and emotions to a more manageable pace . . .

### *USE A WISHLIST*

Instead of making emotional "must buy now" decisions with your lizard/monkey brain, the wishlist slows things down. It buys you time so you can think with a clearer head, while still validating your desires and ideas. For the wishlist to be successful, write down anything that comes to you that you want to do with the new money. This includes what you want to buy (e.g., new house, car, boat), what you want to experience (e.g., go back to school, travel), what you want to do for others (e.g., gift money, donate to charity, start a foundation), and thoughts on how you envision your new life. Don't second guess yourself. If you think it, write it. There is no need to prioritize or categorize these yet. Just get them out of your head and on paper (or computer) for now.

### *PHONE A FRIEND*

Better yet, get together with friends. Continue to socialize. Lean on them for support and encouragement. These interactions are good for the soul and can keep things in perspective. If we become too stressed or myopic in our own lives, we may lack the desire to socialize, but this is when we need the connection the most.

### *EXERCISE*

Research shows that daily exercise can be as effective in treating depression and anxiety as prescription medication. It's a natural mood booster and relaxant. Incorporate some form of daily exercise into your schedule. It can be as simple as a morning walk or an after dinner bike ride. Exercise is one of the easiest ways to slow down and to keep our lizard/monkey brains at bay.

### *STRESS REDUCTION STRATEGIES*

To slow the barrage of requests and decisions and to clear your head, try yoga, meditation, praying, or just conscious deep breathing. Many sudden wealth recipients have found solace engaging in these calming activities.

### *KEEP WHAT WORKS*

"Everything changes" is how one unhappy sudden wealth recipient described her experience. A sudden wealth event can get us thinking about all of the things we want to buy and do with our new lives, but everything doesn't have to change. In fact, not everything should change. Money is a tool that can better your life, but the key word is "better." Sudden wealth recipients who are most unhappy are the ones who radically changed their lives after getting the money. They threw out what wasn't working with what was.

What gave you happiness and a sense of accomplishment? When do you feel the most connected to your purpose? What activities, big or small, do you enjoy? What rituals do you appreciate? Who is important to you? Don't just casually consider your answers, document them. Be very clear on what you want to keep and incorporate into your "new" life. Headline your notepad "What I want to keep the same" and get to work. Talk to family members and friends and ask them what they don't want to change. This process will not only ensure you create the best life you can, but it also forces you to appreciate what you have, which can provide the pause you need when emotions run high and things become too hectic.

### *SEEK A HIGHER AUTHORITY*

If you are religious, talk to your spiritual leader. Share your concerns and your excitement. He or she may offer encouragement and help ground you to your beliefs and a higher purpose.

### *SEEK LIKE-MINDED SUPPORT*

Sudden wealth can be isolating. It can be a lonely experience if you think it is all up to you and that no one understands what you are going through. Do exactly what you are doing right now – getting support from someone who understands your situation and what you are going through – through books or through "support" groups.

### *GET PROFESSIONAL HELP*

The best few hundred dollars a month you can spend is on a licensed therapist – at least for the first few months while you are adjusting to your sudden wealth. Even if you have an understanding family and great friends, sometimes it is nice to be able to talk to someone who doesn't come with any baggage or agenda and is in no way connected to the financial decisions you are going to make. Objectivity and a fresh perspective can be just what you need to reduce stress and to slow things down.

### *VOLUNTEER*

Do you really want to gain perspective and get grounded? Volunteer for a few hours a week. Your life may feel turned upside down, but spend a couple of hours in a children's shelter or soup kitchen and you'll appreciate the quality of your problems. Volunteering won't improve your situation, but it will improve your perspective – something we can easily lose when we get into the weeds of all of the tax, legal, and financial details.

## *FIND YOUR PEAK*

When do you perform at your best? Circadian rhythms are natural daily cycles we experience. Research shows we are better equipped at handling certain tasks at different times during the day. For example, most of us experience a cognitive and energy decline between the hours of 2pm and 5pm. This is the familiar afternoon slump where productivity and concentration drops. Managing the tax, legal, and financial issues of sudden wealth can be challenging enough, so why make it harder for yourself by scheduling meetings and calls when you are cognitively least equipped?

## *TAKE CARE OF YOURSELF*

The sudden wealth experience is similar in a lot of ways to competitive sports. To perform your best, you need to be in peak condition. No, this doesn't mean you need to train for a marathon, but it does mean you should take care of yourself. Again, this process can be challenging, so you might as well give yourself all the advantages you can to not only survive the process, but to also enjoy it. The better you feel, the better your decisions.

## *KEEP IT PRIVATE*

It is in your best interest not to divulge too much information to too many people. Sounds obvious, but you'd be surprised how often sudden wealth recipients can't contain their excitement and will share everything with family and friends. This is a mistake, especially early on. The sudden wealth is too new, and you are still trying to figure things out. You don't need other people's unsolicited recommendations or even their enthusiasm. This will just cloud your judgment and make the job of slowing things down even more difficult. At most, choose one or two people, who you know well and who you trust, if you need to share your news. And even then, there's no need to get into the details of your situation or how much money you will be receiving. Lean on them for emotional support, not tax, legal, or financial advice.

Although it's important to slow down and to adjust to your new reality, you may be faced with several tax, legal, and financial decisions that require your immediate attention. It's time to get some help . . .

# PRINCIPLE 3
# GET HELP

*Learn how to build your advisory team with experts you can trust.*

As a sudden wealth recipient, you are likely to be barraged by tax, legal, and financial issues. The only method to successfully navigate your way through the complexity is to have a team of experts who are the best at what they do. I've specialized in financial planning and investment management for sudden wealth recipients for almost two decades, but if I won the lottery tomorrow, you can bet one of the first things I'd do is build my advisory team. There is too much at stake not to have the best minds and latest strategies available to you.

So often, when I start working with a sudden wealth client months or years after they received their money, I cringe at the tax, legal, or financial strategies they could have employed if only they had better advice. If you win the daily scratcher for $1,000, there are limited options for which you can take advantage. But if your sudden wealth is significant, there is a whole world of options and strategies that can potentially save you not just a little, but a lot of money. How much? I once watched a client write a $15 million check to the IRS for federal income tax. Sounds like a disaster, but if she hadn't hired a team of experts, that check would have been closer to $25 million. By working with the right specialists, she was able to save close to $10 million of state and federal income tax. If her team had been made of a typical CPA, a general business attorney, and normal financial planner, she would have left millions of dollars on the table. That $10 million of "found" money over her lifetime could be worth over $100 million if invested. As they say, "A billion here, a billion there, and pretty soon, you're talking about real money."

The goal for this principle is for you to become familiar with who should be on your team, what roles they each play, what their qualifications should be, and the most challenging of all, how to find them.

## WHO SHOULD BE ON YOUR TEAM?

At a minimum, you should expect to have at least the following three advisors: attorney, CPA, and a financial planner. These three advisors represent the foundation – what I call the advisor triad. Think of them as three legs of a stool. You need all three to form a stable base where you can be secure in knowing the tax, legal, and financial issues are being addressed.

### ATTORNEY

A good attorney (no pun intended) is worth his weight in gold. The problem is knowing what type of attorney you need. There are thousands of specialties within the legal profession – criminal to copyright to bankruptcy to divorce to real estate and everything in between. Think of law as being similar to the medical field where "doctor" is a generic term used for anyone who has gone to medical school. You wouldn't go to a dermatologist for an appendectomy and you wouldn't want to hire a business attorney for tax matters.

The following are the types of attorneys you may need:

#### *TAX ATTORNEY*

The tax attorney will play a highly specialized role. She will ensure you are taking advantage of all the tax minimization strategies possible. Even if you have a CPA on your team, which you should and which we'll discuss below, you will still need a tax attorney. Why? A CPA has a broad knowledge of taxes whereas the tax attorney understands the tax laws and may be highly specialized in just one area of tax law. For example, if you are expecting hundreds of thousands or millions of dollars, you will need a tax attorney to cut your tax bill as low as legally possible.

The tax attorney is a hired gun who works with you for a limited amount of time, usually a few weeks to a few months, in an effort to minimize the amount of tax you pay the year you receive the sudden wealth. After you pay taxes that first year, their job is usually done and the CPA calculates your taxes thereafter.

#### *ESTATE ATTORNEY*

Estate attorneys specialize in minimizing estate/gift taxes and drafting documents that address the distribution of your assets before and after death. Unlike the tax attorney, whom you will probably never need to speak to after their initial work, you will have the need to continue your relationship with your estate attorney.

#### *ASSET PROTECTION ATTORNEY*

Money is a magnet for lawsuits. The more money you have, the greater the chance someone (and their attorney) will see you as a target. There are legal ways to shield your assets and to protect yourself against lawsuits, and this is where the knowledge of an asset protection attorney is needed. Some asset protection attorneys focus on this area exclusively, but you'll often see estate attorneys provide asset protection to clients. If you find the right estate attorney, they can do both effectively. If your estate attorney is less qualified in asset protection, this is an area where it can make sense to hire a specialist.

## *GENERAL BUSINESS ATTORNEY*

A general business attorney may have their hands in different areas of law, but they can be a valuable member of your team, if only to help you find more specialized attorneys. The problem I see clients run into is when they hire a general business attorney to do everything – reduce taxes, draft trusts, set up LLCs, etc. I've had clients come to me after they had the same attorney not only help them with divorce but also draft their estate plan and create a buy-sell agreement for their company. It doesn't matter how smart or seemingly qualified an attorney appears, one person cannot effectively practice three areas of law. Avoid this by hiring a specialist.

There are a few things you should consider when hiring an attorney. The first was already discussed. Make sure you hire a specialist in the area(s) you need rather than a one-size-fits-all legal generalist. Specialists will cost more, and you may have to hire more than one, but they should pay for themselves many times over.

Second, does it make more sense to hire an attorney from a big firm or a small firm? I think the same rule applies to music. You don't download songs because Universal Music Group is the record label, you download the artist you like. Law firms are a collection of attorneys. Don't hire the firm, hire the attorney. Some of the very best attorneys in the country have firms with fewer than 10 employees.

Cost is another issue to consider. Many sudden wealth recipients are aghast at the retainers and fees their advisory team charges – it is not at all uncommon for the first year's advisory fees to exceed the annual income of the client before their sudden wealth. There are two ways to pay less in fees. You can hire an advisory team that is subpar or you can choose to go it alone and come up with your own tax, legal, and financial strategies. Obviously, these are both terrible options. This doesn't mean that you should pay more than what is fair, and it doesn't mean that just because someone charges more that they are better.

Lastly, each state regulates the attorneys who are licensed to practice law in their state. An attorney only licensed in California cannot provide legal advice if you live in Missouri, so it's important that your attorney is licensed to practice law in your state.

## CPA

A CPA, or Certified Public Accountant, is a broad designation provided to someone who has passed a comprehensive exam administered by the National Association of State Boards of Accountancy and who meets additional state education and experience requirements. A CPA, like an attorney, is regulated by the state, so it's important that you work with a CPA who is qualified in the state in which you live.

CPAs perform a vast range of services – from auditing to forensic accounting to corporate finance. The CPA you hire should be focused on tax, specifically tax minimization and preparation. The CPA is not a hired gun you bring in for a limited time to help address a specific issue. Your CPA will be a long-term and critical member of your advisory team. You'll work with them throughout the year to minimize state and federal income taxes and they'll help you calculate your estimated taxes and prepare your tax returns.

The year you receive the sudden wealth and the year following typically require more sophisticated tax planning. It is during this time you may have not only a CPA but a tax attorney on your team. Your income tax and tax planning/preparation bills will undoubtedly be higher during these years. After this period, things usually become a lot simpler. The amount of tax and tax advisory fees you pay often drops substantially.

CPAs can be sole practitioners, work for one of the “big four” accounting firms, or fall somewhere in between. CPAs will also typically specialize in personal returns (tax matters for individuals) or business returns (tax matters for companies). If you have or plan on operating a business, a firm larger than one person may have more depth of services and research to support your needs.

## FINANCIAL ADVISOR

The third leg of the stool, and completing the advisory triad, is the financial advisor. A good financial advisor will work with you even before you receive the money. They will be a critical resource to help prepare you for the money and help you create a comprehensive financial plan. A financial advisor well-versed in the tax and legal aspects of sudden wealth can be an important part of your team – working with and suggesting tax minimization, asset protection, and other advanced strategies with the other members of your team. And, of course, once you have received the money, your financial advisor will manage your assets and provide ongoing reporting, monitoring, and adjustments to your plan and investments.

The complaint of many sudden wealth clients is that they are paying all of these experts but that no one knows what the others are doing – the CPA doesn’t know what the estate attorney is doing and is not aware of what the insurance guy is recommending. This can lead to inefficiency, extra fees for you, sub-optimal planning, and gaping holes in your estate, asset protection, and financial plan.

I’ve learned that to create a comprehensive financial plan, someone has to step up and manage it, but what usually happens is the attorneys and CPA have their heads in the details and the client has to manage everyone and everything. Not only should the client not have to take on this job, especially with what they are paying their advisors, but they also are often not qualified to know who to bring in or even what questions to ask.

A good financial advisor should not only play a critical role in the early stages of sudden wealth, but I’ve found that they are best equipped to be the person managing the other advisors, coordinating and overseeing the plan, and the person you call first when there is a question. When the financial advisor fills this role, they are called the “financial quarterback” because they see all of the moving parts of the client’s tax, legal, and financial life. They are the ones who can identify when to bring in other experts and make sure all of your financial bases are covered.

But why is the financial advisor best equipped for this role? Many aren’t, and that is why it’s important to work with a comprehensive financial planner, someone who can provide expertise in the areas of insurance, cash-flow management, retirement planning, taxes, estate planning, asset protection, and investments.

# HOW BEST TO WORK WITH YOUR ADVISORS

The best ingredients do not necessarily make the best meal. You can have the best advisors in the world in their respected fields, but if they don't have a clear leader, communicate effectively, agree on an overall strategy, or generally play well together, it will be a mess. A mess can undermine the viability of the client's financial plan and create unnecessary stress for the client at a time when their advisors should be working to make the client's life easier and stress-free. Ultimately, when the advisory team doesn't operate smoothly, it hurts the client. This is why it is so important to have someone managing the process and leading the team – holding the members accountable, driving the plan forward, integrating the tax, legal, and financial issues, and ensuring constant communication among the advisors and to the client.

Sometimes the leader is the client, but often it is the financial advisor. Regardless of who assumes this role, there are several strategies to make the team work better and for the client to feel like an integral part of the process.

## *CHOOSE THE LEADER*

As early as possible, make the decision about who will be the leader responsible for overseeing the plan and for managing the advisory team. If that person is you, great. Let your team know you are taking on this role. If it's not you, identify the person on your team responsible for this – the attorney, CPA, or financial advisor. Don't assume someone will step up on their own to assume control and lead. It is your responsibility to identify this person and to have a conversation with them and the team.

## *DRIVER VERSUS PASSENGER*

As was discussed in the first principle, know when to be the driver and when to be the passenger. Be the driver on the overall goals and objectives – the "what" – but be the passenger on the specifics of your plan – the "how." Lean on your advisors for their experience and knowledge of the tax code, laws, and strategies while you shape the direction of the plan.

## *SET COMMUNICATIONS EXPECTATIONS*

As good as we advisors are at what we do, our ability to read the minds of others is lacking. If you have a preference in how your advisor communicates with you (e.g., phone call, email, text, etc.) and how often, let them know. What are the best hours to contact you? At work or after hours? How early can they call in the morning? Some clients like the details and want to do a great deal of communication, whereas others want less.

## *DETERMINE AND DISCUSS YOUR COMMUNICATION STYLE*

Imagine that you are a quiet person who likes to analyze the details and take your time to make a decision, but your attorney is loud, excitable, and gives you a brief summary and then pushes you to make a quick decision. Or maybe you are a big picture person who quickly makes decisions but are working with a highly detailed and methodical advisor who feels the need to explain not just their recommendation but also how they came to that conclusion. In either case, it won't take long for you to feel disconnected, and maybe even frustrated and angry. You certainly won't feel listened to or respected. Your advisor may be one of the best in the country, but if they don't better match their communication style with yours, it not only won't be an

enjoyable experience, but you also may not listen to or implement the advice they provide. It's difficult to separate the advice from the advisor.

### *WEEKLY CALLS*

As a reminder, schedule weekly calls with your advisors as you get closer to receiving the money and even more frequently after you receive the money. This weekly call, sometimes just 10 or 15 minutes, is where you can ask the questions from your written log and get updates from your advisors. These calls can help you feel connected to the important issues and your team.

Now that you have a team of experts looking out for your best interests, you will want to make sure you are looking out for your own best interests. Old and ineffective money beliefs and behaviors that could undermine your sudden wealth success may need to be replaced. It's time to upgrade your money beliefs . . .

# PRINCIPLE 4
# UPGRADE MONEY BELIEFS

*Discard limiting money beliefs that will undermine your success.*

When some people hear “upgrade money beliefs,” their eyes glaze over. I fully understand that reaction. The truth is, we all have money beliefs, and many of us have limiting money beliefs. This just means our view of money is such that it can make acquiring it, saving it, and managing it more difficult than it needs to be. The goal of this principle is to think about how we think about money. And if you find you are thinking about or using money in a way that is not helpful, you’ll learn a few strategies to think about money differently – practical tools to help you manage your sudden wealth more effectively.

Surprising to most, sudden wealth is not about the money. It’s more mental and less financial than most people realize. The problems that can arise as a result of sudden wealth rarely are the result of the money; they are almost always psychological, emotional, and relational. If you can “get your head on straight” as one client quipped, you can eliminate many of the potential problems of sudden wealth.

Why do your thoughts and beliefs about money play such an important role? At its essence, sudden wealth – money – is just a tool. It has no inherent value. Its value is what it can provide. Money is potential and possibilities. And because money can be used for many purposes, its value and meaning lies within each of us. For example, money can be used to travel and see the world, giving it the value of adventure, learning, and excitement. Money can also be used to control friends and family, giving it the value of power and significance. How you value money dictates the decisions you make saving, spending, managing, and investing it. A good relationship with money can ensure good decisions, which leads to being able to use money to create a better life. A poor relationship with money – one in which you are plagued with limiting money beliefs – can create unnecessary anxiety, relationship problems, and can lead to quickly spending the money and ending up broke in a short period of time. It’s not about the money.

The thief in the night who strips you of your sudden wealth doesn’t climb through a window and rob you, the thief in the night is in your head. Sudden wealth recipients rarely go bankrupt

because they didn't have the best advisors or because they paid too much tax or didn't invest responsibly. They can't help themselves. They make a series of bad financial decisions over and over and over, even when they know better. It's not about the money.

How can you make sure you don't become your own worst enemy? Start by understanding your limiting beliefs, then seek healthier alternatives. This principle will show you how.

## ELIMINATE NEGATIVE MONEY SCRIPTS

The term "money scripts" was coined by psychologists Brad Klontz and Ted Klontz to describe our core beliefs about money that drive our financial behaviors. Think of money scripts as apps that work behind the scenes but that influence (and sometimes control) how we think about money and make financial decisions. Just as a fish doesn't experience water because it's part of its existence, we are often unconscious of our money scripts and their influence.

Money scripts are often developed in childhood, passed down from generation to generation within families and cultures, and usually contain only partial truths. Money scripts can be developed over time (e.g., from hearing your parents talk about money), from a cultural financial flashpoint (e.g., the Great Depression), or from the result of a single but emotionally charged, dramatic, or traumatic personal or family financial flashpoint (e.g., parental abandonment, being evicted and having to sleep in the family car). Money scripts forged under these conditions can become resistant to change even when they are self-destructive. The good news is the research shows that once a person's money script(s) is identified – that is, taken off auto-pilot – the app running in the background can be observed, challenged, and changed.

If you have a negative money application running in the background, maybe from an event decades earlier that has shaped how you think about and interact with money, your sudden wealth can be like fuel to a fire. For example, one of the money scripts discussed below is Money Avoidance. This describes someone who believes money is bad and that they don't deserve it. Can you see how this unconscious belief that money is bad can interfere with good financial decisions after a sudden wealth event?

### THE 3 MONEY SCRIPTS

Research by Brad Klontz, Sonya L. Britt, Jennifer Mentzer, and Ted Klontz has identified three money scripts associated with poor financial health: Money Avoidance, Money Worship, and Money Status. The following descriptions are those of the researchers.

#### *MONEY AVOIDANCE*

Individuals who score high on money avoidance believe that money is bad or that they do not deserve money. For the money avoider, money is seen as a source of fear, anxiety, or disgust. Money avoiders have a negative association with money, believe that people of wealth are greedy and corrupt, and believe there is virtue in living with less money. At the same time, money avoiders are likely to hold the conflicting beliefs that having more money could end their problems and improve their self-worth and social status. As such, they may vacillate between the extremes of holding great contempt for money and people of wealth and placing too much value on the role of money in their own life satisfaction.

Money avoiders may sabotage their financial success or give money away in an unconscious effort to have as little as possible, while at the same time, they may be working excessive hours in an effort to make money. Not surprisingly, money avoidance is associated with poor financial health. Money avoiders tend to have less money and lower net worth. Money avoidance is associated with increased risk of overspending and compulsive buying, sacrificing one's financial wellbeing for the sake of others, financial dependence on others, hoarding, avoiding looking at one's bank statements, trying to forget about one's financial situation, and having trouble sticking to a budget.

### *MONEY WORSHIP*

At their core, money worshipers are convinced that the key to happiness and the solution to all of their problems is to have more money. At the same time, they believe that one can never have enough money and they will never really be able to afford the things they want in life. The tension between believing that more money and things will make one happier and the sense that one will never have enough money can result in chronic overspending in an attempt to buy happiness. Money worshipers are more likely to have lower income, lower net worth, and be trapped in a cycle of revolving credit card debt. Money worshipers are also more likely to spend compulsively, hoard possessions, put work ahead of their family relationships, try to ignore or forget about their financial situation, give money to others even though they can't afford it, and be financially dependent on others.

### *MONEY STATUS*

People who hold money status scripts see net worth and self-worth as being synonymous. They may pretend to have more money than they do, and, as a result, are at risk of overspending in an effort to give people the impression that they are financially successful.

They believe that if they live a virtuous life, the universe will take care of their financial needs, and that people are only as successful as the amount of money they earn. They have lower net worth, lower income, and tend to grow up in families with a lower socioeconomic status. People with money status beliefs are more likely to be compulsive spenders, be dependent on others financially, and lie to their spouses about their spending. Holding the money status script is also predictive of pathological gambling, indicating individuals may gamble in an attempt to win large sums of money to prove their worth to themselves and others.

## OVERCOMING LIMITING MONEY SCRIPTS

### *IDENTIFY YOUR MONEY SCRIPTS*

Did you find yourself nodding along as you read any of the negative Money Script descriptions above? Take the brief online assessment at **SUDDENWEALTHSOLUTION.COM** to determine how you score on each of the money scripts.

### *TAKE AN INVENTORY OF YOUR BELIEFS AROUND MONEY*

What was your earliest memory around money? What is your happiest money memory? How about your most painful money experience? What were you taught about the wealthy and the poor? How were your parents around money? Which money beliefs do you think they have? Why?

## WORK ON A MONEY SCRIPT LOG

Dr. Brad Klontz recommends a money script log as a way to get insight into your thoughts and beliefs around money. He suggests sudden wealth recipients answer the following:

1. ***What was the trigger?*** Identify the situation, event, or emotion that prompted the negative money behavior.
2. ***What went through your mind?*** Focus on what you were thinking before the negative money behavior.
3. ***What was your impulse?*** What actions did your thoughts compel you to take?
4. ***What did you do?*** What did you ultimately do?

The money script log creates a bread trail you can follow to the source of your money behaviors. You overcome, or at least interrupt, the automatic money scripts when you use the money log because it forces you to pause and analyze each step in the process. You can insert questions between the impulse of wanting to do something and actually doing it. For example, you can ask yourself, "Is there something else I can do right now that will make me feel better?", "What are the consequences if I do this?", or "Is it really worth it?"

Your Money Scripts can create limiting money beliefs. We limit ourselves when we think we are stuck with whatever money beliefs and behaviors we have today. That somehow, our comfort around money and finances is fixed or somehow pre-ordained and inflexible. This, thankfully, is simply not true. Becoming conscious of the belief may be enough for you to shift your thinking and to create more empowering money beliefs. But for others, knowing they have a problem isn't the same as having a solution. More may be needed. If you've identified your Money Script but you still can't change your beliefs, seek outside help from a financial therapist or coach.

## CREATE NEW BELIEFS THAT EXPAND YOUR FINANCIAL COMFORT ZONE

As you chip away at your limiting money beliefs, you can allow room for your financial comfort zone to expand by creating new money beliefs. What are positive money beliefs that can replace your negative money beliefs and expand your financial comfort zone? Look at each negative belief and create an alternative. What be a better belief that doesn't straightjacket you but allows you freedom to think bigger?

All limiting money beliefs are dangerous to your financial wellbeing. If they are not identified and upgraded, they can subtly influence your thoughts and behaviors. You may do things that "feel" right and give you comfort, but that are highly irrational and counterproductive to your overall well-being. Your limiting money beliefs can impact not only your finances, but also your relationships.

# PRINCIPLE 5
# MANAGE RELATIONSHIPS

How to keep your most important relationships.

Money changes people. You might not want to think money can change your relationships with friends and family, but most sudden wealth recipients experience some change to their relationships. The changes may be positive or negative, but it's certainly some kind of change. Those who are candid about how their windfall has affected their relationships will lament that since their sudden wealth, they have lost friends or grown distant from friends and/or family. They may blame themselves or others, but they will agree that the money negatively impacted relationships that were important to them. It's noble to think you'll be the same guy who was $55,000 in debt when your bank account now shows $15 million. It's noble, but it's not realistic. It's also disingenuous to think your friends and family won't change either. They will.

Sudden wealth recipients will often complain that their friends or family weren't there for them when they needed them the most or that they put too much pressure on them. Their friends and family will complain that they didn't have time for them and that the money changed the sudden wealth recipient. Sudden wealth recipients who come to curse the money don't do it because they had too many meetings with their advisors or felt overwhelmed, they curse the sudden wealth because they view it as causing their divorce, losing friends, and becoming estranged from family. This is why sudden wealth gets a bad rap. And unfortunately, sudden wealth has the power to permanently damage our closest relationships.

## HOW TO KEEP AND GROW YOUR RELATIONSHIPS

### *GO SLOW*

The stress of sudden wealth can make even the most even keeled and grounded person a little frazzled. It can take a few days or even a few months to really settle in and to hit your stride. Until then, go slowly. Remember to stay healthy too – eat better, sleep more, and exercise.

## PHONE A FRIEND

When it comes to your relationships, I've found it is best to have one or two confidants. If you have more than this, there can be too many "cooks in the kitchen." This is a highly emotional and stressful time, and although you need the support from loved ones, you don't want to become overwhelmed with support, advice, and questions. You can either keep your sudden wealth private from others or you can proactively reach out to close friends and family with an email or message.

## PROACTIVE COMMUNICATION

Public relations experts always tell their clients to "get in front of the story." This means you proactively get your message, the message you want, out before you get questions and the story gets a life of its own. Here's how you can get in front of your story and for your friends and family to not feel neglected or left out: (1) Give them a brief summary (no details needed) of your situation, (2) Let them know you will be less available while you sort everything out, and (3) That as soon as you can come up for a breath, you will update them. That's it. Could you still receive unsolicited advice and questions? Sure, but just stick to your message.

## DON'T CHECK OUT

Resist the temptation to check out. Isolating yourself is rarely a good move. Your friends and family can provide support. Early on, when things are most stressful and when you need the most support, reach out to one or two friends who are the most supportive. If your closest friends are creating the most discomfort, and this can be the case, find other friends/family who can provide you with the support you need. Once things settle down for you, then you can reconnect with your other friends.

## CONFESS YOUR FEARS

This can be a powerful strategy that can prevent relationship issues before they happen. It's as simple as expressing your fears and what you want to avoid before there are any problems. This is most effective when the sudden wealth is new and hasn't had a chance to create any relationship issues. You can write a letter/email or gather your friends/family together and share with them your fears – that you've done research on sudden wealth and that it is common to have relationship growing pains. Discuss how other sudden wealth recipients lost best friends and family members because of the challenges windfalls can create (e.g., hurt feelings, envy, distance, perceived inequity, etc.) and that you never want your relationships to suffer. This simple (but not necessarily easy) conversation can deflate many of the relationship problems before they become problems. It's amazing how shining light on a potential problem and sharing your feelings and fears can prevent them from becoming an issue.

## GET IT OUT IN THE OPEN

What's the only thing worse than having an uncomfortable conversation with a friend or family member? Not having the conversation. No one looks forward to sitting their best friend down and asking them if they think different of you because of the money. But if you don't and the negative feelings linger, it can damage a relationship for which you care deeply. It's better to have a difficult talk and to get everything out in the open, than it is to let these things fester until you're both angry at each other.

### BE CAREFUL NOT TO CONFORM

Your desire to fit in may lead you to do all kinds of irrational things, such as giving your money away, throwing big parties, or promising to help friends and family members financially. You may end up doing these things, but give yourself and your advisors time to determine what you can afford. Don't do them just to minimize the pressure, guilt, or other emotions you are feeling.

### FOCUS ON WHAT YOU WANT

The mistake most people make when they are hoping for change is to focus on what they don't want, but there are two problems with this. First, it can feel like an attack to be told that what you are doing/saying is wrong. This can escalate the conversation into an argument and a debate. Second, it's not instructive. Paint the picture of what you want so there is a clear objective. It's much easier to hit the target when you know where it is than knowing where it isn't.

### WATCH YOUR RELATIONSHIP RULES

Your relationship rules determine what has to happen for you to feel good about your relationships. Rules are 'if-then' triggers we create so we know when a need has been met. For example, you may have a rule for love that requires never arguing, being told every day that you are beautiful, enjoying the same activities, and being able to talk about your feelings without being judged. If these things occur, then you feel love. If only two or three of these occur, you won't feel love. Our rules run in the background. Without even knowing it, we have a checklist that is being compared against our interactions. Check off enough items and we're satisfied. Miss one and there's a problem.

The rules you create control your happiness and your relationships. If you set rules for your relationships that are impossible for friends and family to meet, you will be disappointed. It's not about artificially setting the bar low. It's about understanding what our rules for relationships are and determining if the rules are valid and healthy.

The first step is taking an inventory of your relationship rules. What has to happen for you to feel good about your relationships with your friends and family? Most people's rules start with "If you were a good friend/family member you would…" Figure out the right combination that unlocks relationship happiness for you. Now get ready to make some changes. Look for rules that are difficult to accomplish and/or not under your control and then come up with better rules. For example, if your relationship rule is that your friends should understand your needs and that they should reach out to you without asking for support, you are setting yourself up for failure. Your friends can't read your mind and anticipate your needs. If you expect them to, you will be constantly disappointed. Unreasonable relationship rules can lead you to act desperately or selfishly. Make your relationship rules easy to achieve and under your control.

### ASSUME THE BEST INTENTIONS

The poison that can kill a relationship is assuming bad intentions. When you think the worst about someone, it can start a chain reaction of hurt feelings and bad behavior that can tarnish even the best relationships. For example, if a friend didn't send flowers after your mother passed away and your interpretation was that she doesn't care enough about you, what other negative thoughts could this lead to? How will you interact with her if your assumption is she doesn't care about you? Negative assumptions put you on a downward spiral.

Instead, take the high road. Give them the benefit of the doubt and assume the best intentions. Maybe your friend cares deeply about you, but when she heard of your mother's passing, it reminded her of her own mother's passing. Maybe instead of sending flowers, she made you something. If these were the thoughts going through your mind, how would your interaction with your friend change?

There are a million reasons why someone could do something. Instead of assuming the worst, assume the best in your family and friends.

### *FOCUS ON OTHERS*

Sudden wealth can be all encompassing. It takes a tremendous amount of time and energy to effectively deal with everything. But your friends and family have their own lives, issues, and challenges they are facing, too. During the early stages of sudden wealth, the focus is going to be on you. You'll put in a lot of mental energy working with your advisors and thinking about this new chapter in your life. So much so, it can be easy to forget about the needs of your friends and family. Effectively responding to sudden wealth can be demanding and exhausting, but make room for those who are closest to you. Shift some of the attention and focus to them by asking them about their lives and developments.

### *GET NEW FRIENDS*

Don't be afraid to make new friends. For some, sudden wealth can be isolating. Old friends and family members may not understand the pressures. They may not have the time or money to do the things you can now do, such as travel. Get around others who understand your position. One client once remarked, "It is so liberating to be around others with money so you don't have to hide your wealth or worry that you'll be asked for a loan." Even though not everyone with money can appreciate the unique challenges of sudden wealth, new relationships won't have the baggage the old ones do. The same client confessed, "Sometimes when I'm around my old friends or with family, I feel like a fraud. Like they are judging me for something I did wrong. Like no matter what I do, they are watching my every move."

### *KEEP YOUR PROBLEMS IN PERSPECTIVE*

This cannot be repeated often enough: keep your quality problems in perspective. There's no doubt you are going through a stressful time with lots of ups and downs. It's understandable you will be stressed and that you'll have many new things to worry about. Sudden wealth is also an opportunity. It's easy to become hung up on the challenges you are facing and to lose perspective on the problems your friends and family may be facing. Be thankful you've been able to upgrade some of your problems, but don't forget your friends and family still have their old problems.

Sudden wealth changes people. It will change you and it will change your friends and family. It's hard to avoid this. The goal is for everyone to come out the other side with as little permanent damage as possible.

How many times are we told that "It takes two to tango"? How many times have we said, "You need to meet me halfway" or, "I'll do my part if you do yours"? Intuitively, it makes sense that if each person pulls their weight, the relationship will work, but intuition is wrong. The best and strongest relationships are when each person takes 100% responsibility for making it work. They don't wait for the other person.

If your relationships matter, take full responsibility for doing what it takes to keep them strong. Feeling slighted by a family member because they didn't call you to congratulate you on your win? Take responsibility for the relationship and reach out to them – especially during the early stages of sudden wealth when everyone is adjusting to the situation.

Most sudden wealth recipients experience some relationship growing pains, but with a little insight, patience, and compassion, everyone can adjust to the changes smoothly and have better, stronger relationships as a result. I think the biggest takeaway is to not let molehills turn into mountains. My rule is that if something happens once, I let it go. If it happens twice, I address it. It's not all about you. Your friends and family have their own issues and challenges. If you have an encounter where you sense some weirdness about your sudden wealth, let it go. Everyone can have a bad day. But if it happens again, call attention to it. It's communication 101, but focus on how whatever they said or did makes you feel. No need to cast blame or criticize. The more you can share what you're experiencing without attacking them, the better the chance they will understand your point of view.

But there comes a time when you have to say no to even your closest friends and family members.

# PRINCIPLE 6
# SAY NO

*Learn strategies to reduce the onslaught of money requests.*

No. So simple. So short. Why is it so difficult to say?

There are few guarantees in life. We know about death and taxes, but we can add one more: If you've received sudden wealth, you will be hit up for money . . . and probably often. Everyone from friends and family to strangers and charities will ask for money. They'll ask for loans, investments, gifts, and donations. They'll ask, and then they'll ask some more.

This is the dark side of sudden wealth. This is the aspect of sudden wealth that those who've never experienced it will never understand. The requests can be unrelenting and they can start before the ink dries on your check. It can leave even the most caring and compassionate person hardened and a little jaded.

There's nothing you can do to avoid these money requests, but there are ways you can deal with them that will make it easier for you and for the people asking. If you follow the guidelines below, you will learn strategies for saying no that will empower you. You'll have more confidence because you'll have tools and a proven system to say "no, thanks" that minimizes hurt feelings.

## FORMALIZED MONEY REQUEST PROCESS – THE RULES

### *RULE #1 – NEVER SAY YES*

This is a simple rule, but if you make exceptions, it can come back to bite you. The rule is that you cannot agree or commit to providing a loan, investment, gift, or donation to anyone on the spot. If you don't want to provide the money and you are comfortable saying no, then by all means, make it clear you have no interest. If you are pitched an investment that sounds interesting or you are asked for a loan from a friend and you are uncomfortable saying no, delay the decision. Never commit on the spot, regardless of how urgent they make it seem. You

always have a night to think it over, and if they claim they need to know right away, tell them you're not making a decision on the spot. If they continue to pressure you, then tell them no thanks.

### RULE #2 – CREATE A CANNED RESPONSE

Your sister pulls you aside at a family gathering and tells you little Johnny really would like to go to guitar camp but that they've been struggling financially because her husband was laid off. She tells you how gifted Johnny is and how it's not that much money and how it's an opportunity of a lifetime for him and asks if you have the $5,000 for tuition. Your mind races as you fumble for your words. "Uh, well, it does sound like a great camp and Johnny is really talented, and uh…" and before you know it, you've agreed to give her $5,000. It doesn't have to be this way, though.

No one likes to be pressured and made to feel uncomfortable. The best tool I've found to give clients confidence is for them to come up with a standard canned response they can use whenever they are asked for money. No matter what the situation or the request, you can have a thoughtful reply that you've memorized and practiced, which you can deliver without thinking or fumbling for words. The response I recommend is:

**"I can't give you an answer this moment, but let me talk to my advisors and we'll get back to you with more questions."**

The advantages of this approach are threefold. First, it takes pressure off of you in the moment by giving you more time to decide. A lot of sudden wealth has been frittered away because of making bad decisions on the spot. Second, it sets the precedent that you are thoughtful with your money and will not be cornered into a decision, no matter how small the money request. Third, you are shifting the decision making power off of yourself and on to your advisors, as well as opening the door to have your advisors respond on your behalf, which many sudden wealth recipients find to be a big relief. To feel comfortable with this response, practice it over and over and over. You want it to flow off your lips without thought. It should feel effortless.

Still pressured? They want an answer now? They want to give you more details? Simply repeat what you've said. Don't change your message. Repeat your canned response verbatim each time they want an answer or want to pitch you further. You don't have to provide an explanation or any details as to who your advisors are or when you'll be getting back to them. They are coming to you for help. It's your game and you make the rules. If they want to play, they need to follow them.

Clients have said that this memorized phrase is like having armor and that it gives them confidence to go into any situation and not be worried about being asked for money. One client, who had just come into sudden wealth, was so petrified about going to a family dinner and being hit up for money that she wasn't going to attend. After creating her canned response and rehearsing it several times, she transformed into a different person. She was no longer worried or insecure. In fact, she said she couldn't wait for the dinner so she could use her response for real.

### RULE #3 – USE YOUR ADVISORS

If you like being the guy or gal who tells people no, then by all means, do it. On the other hand, if you don't want to be in the position of telling friends and family that you can't help them, use your advisors. Almost all of my clients use me this way, and I encourage it. Why? It takes a lot of the pressure off you. Let your advisor get the information and ask the tough questions. Let them negotiate the details. Let them say no. It allows you to avoid confrontation and makes your advisors the bad guys.

I recommend using your financial advisor as the initial go-to person. They usually have a broader knowledge base for which they can analyze different requests, and they are more in tune with your financial situation and ability to make donations, loans, or investments. Added bonus: it will be cheaper for you. Attorneys and CPAs typically charge by the hour, but most financial advisors do not.

### RULE #4 – SEND A CANNED NOTE

For a highly publicized lottery win, your friends and family will be all over you with advice and questions. To avoid much of this, I've found a successful solution that is both direct and caring. Send this email/letter to your friends and family:

*"Thank you for reaching out to me. As you can imagine, life has been crazy for me lately. I'm sorry that I haven't been able to get back to you, but I want you to know I appreciate our relationship. I'm working with my advisory team. Once I'm able to come up for air, I will give you an update. At this point, I don't need any advice or suggestions, but if this changes, I will let you know. Again, thank you for your understanding while I sort everything out. I look forward to being able to catch up with you soon."*

### RULE #5 – USE THE MONEY REQUEST TOOL

To better formalize the review process, I created an online form for money requests at **SUDDENWEALTHSOLUTION.COM**. The form contains a series of detailed questions the requestor must complete and submit. The advantage of using the form – at least initially – is that it asks a lot of important questions and can be a big time saver by providing a good overview of the request and the requestor. To help you stay out of the process, have your advisor email the link to the form to the person asking you for money. The completed form can then be emailed directly to the advisor for his review. Your advisor can then have a conversation with you about the request and can go back to the requestor with more questions.

### RULE #6 – ASK ME ONCE, IT'S FINE. ASK ME TWICE, WE HAVE A PROBLEM.

Friends, family, and strangers will ask you for money. If you have a relationship rule that says, "Someone who cares about me will never ask for money," then you will perpetually be disappointed. Over the years, I've raised the threshold for becoming upset. I created a better rule:

***Ask me whatever you want and I won't be upset.***
***If I decline and you ask me again, we have a problem.***

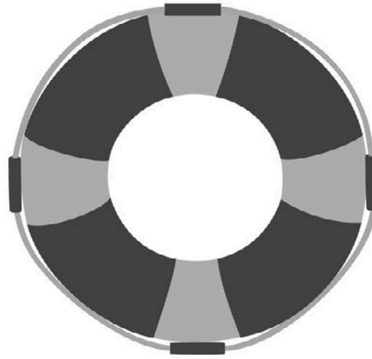
It's one thing for a friend or family member to reach out to you for help. If you give it careful consideration but decline, it needs to end there. If they continue to ask, you and/or your advisors

need to make it clear that they've crossed a line and that further requests will jeopardize your relationship. Clients have told me this is harsh and that they couldn't imagine having this conversation with close friends or family members. I agree. It's not an easy conversation to have, but it is an important one. Here's why. It tells them you care enough about your relationship that you do not want it damaged. It tells them what you are willing to accept and what you are not. It sets the operating rules and gives them the choice to decide whether they value your relationship or your money more. If they want to ruin the relationship, it's on them.

To make the process more formalized, some sudden wealth recipients have created a written document that outlines each step in the process, who is involved, timelines, etc., which they share with friends and family after being asked for money. Documenting your process isn't required, but if your sudden wealth was made public and you are receiving a lot of requests from strangers, it's an effective strategy for handling numerous requests, setting expectations, and getting everyone on the same page.

Sudden wealth isn't all about saying no. There will be some family and friends you want to help, but before you start writing checks, the next Sudden Wealth Principle will show you how to help the right way.

# PRINCIPLE 7
# HELP THE RIGHT WAY



*Support friends and family correctly.*

Many sudden wealth recipients want to use their new wealth to help their family and close friends, but just as many are unsure of the best way to help. Should you send a check? Take everyone on a trip? Agree to pay their mortgage? Buy each a new car? How much is too much? There are lots of questions and usually not enough clear answers.

When it comes to helping family and friends, it's not all smiles and sunshine. If you go about this the wrong way, it can ruin relationships and create a great deal of pain for yourself. You've learned to say no, but what about those times when it makes sense to help friends and family members financially? There's a right and wrong way to say yes. This is a delicate area that requires planning and clear communication.

## WHO'S IN YOUR LIFEBOAT?

Imagine you're on the *Titanic* with everyone you know. The ship is going down but you have a lifeboat that holds a limited number of people. If you try to take too many, your little lifeboat will sink and you and everyone you know will sink with it. Who do you take on the lifeboat?

Likewise, you may want to use your sudden wealth to help everyone, but if you help too many or too much, you can sink your own finances. You need to determine who's in your lifeboat and who's not – who you are willing to help financially and who you aren't.

The people you bring into your lifeboat are the people you would help even if it means you would hurt yourself. When I first started working with sudden wealth recipients, I would try to use logic and numbers to talk clients out of helping beyond what they could afford, but time and time again, they would do it anyway. I realized that there were certain friends or family members each client was willing to help to the end, regardless of what I said. This became clear when a client who had just helped pay for drug rehab for her young grandson poignantly asked, "What

would you have done?" I had to admit I would have helped, too. It was a good lesson I have not forgotten.

If a client will risk their own financial solvency to help a handful of people in their life, then we better do everything we can to plan for the worst and support those few people in a way that not only helps them but also minimizes the financial damage to the client.

Start by creating a family tree. On top should be your oldest living relatives. Then work your way down to yourself, siblings, nieces and nephews, in-laws, grandchildren, unborn children, etc. Do something similar with your friends. At this point, the goal is to create a visual of the people in your world, whether you want to help them or not.

Once you have a snapshot of your social universe, you can begin to think about who you want to assist. If it's helpful, you can begin to classify people as:

1. **Musts**. These are the family and friends who you absolutely want to help in some way, big or small.
2. **Maybes.** These people you'd consider helping if financially feasible, but not at the expense of helping the friends and family in the Must category.
3. **Misses**. Lastly, even though you may love these people dearly, they are not people you are willing to help financially.

I've had sudden wealth clients who have helped good college friends before parents. It's not my job to make judgments about who should or should not be helped, and if at all possible, you shouldn't judge yourself for making anyone a Must or a Miss. It's your choice. Feel good about it.

Once you and your advisors determine how much you can afford to help, you can modify who is on your list and/or how much help you are willing to provide. The benefit of this exercise is the awareness it creates regarding your priorities. Life becomes much more clear when you know who you want to help, how much you can afford to help, and who you can say no to. Knowledge is power, and when you receive requests for money that fall outside of your lifeboat, you don't have to second guess yourself each time.

## INVESTMENT OPPORTUNITY FUND

One strategy to help the people in your lifeboat is to create an investment opportunity fund. An investment opportunity fund is an investment account that you've contributed money into. This fund represents the maximum amount of money you are willing and/or able to give. For some, this is a private foundation, but it can be any account. The money in the account is invested in traditional investments such as stocks and bonds and/or in private businesses or ventures, or loans to support friends and family. As the investments produce a return, the growth is put back into the account so additional giving is possible. If managed well, the opportunity fund can grow over time and allows for ongoing giving rather than one-time gifts. If it's not managed well, the account and giving dries up. This aligns your interests with the receiver's interests. You can even recruit friends, family members, and advisors to sit on the investment committee and review each proposal. This helps to keep the pressure of saying yes or no off of you and more in the hands of the people with the most to gain and lose.

Another related strategy to align interests even more closely when making loans or investments in friend's/family's businesses is to create individual opportunity funds. If the loan is repaid or if the investment performs well, the money stays in an account earmarked for them for future loans/investments or for helping their children pay for college, etc. Your brother-in-law may think twice about asking you for money on a longshot business venture when he knows his children's college education hangs in the balance.

## BUY AN ANNUITY

If you have the desire to help, and only if you can afford it, consider buying an annuity for each person in your lifeboat. The advantage over writing everyone a single check is that an annuity provides them with income for life. Because the money doesn't come all at once, an annuity protects them from financial mismanagement. The steady stream of income they receive also protects you from having to write additional checks if they make bad financial decisions.

Annuities are also highly customizable. Each person can be guaranteed a different monthly amount, and you can start the income immediately for some, but delay it for others. Work with your CPA and financial advisor on gift tax consequences to determine if it makes more sense for each person to be the owner of their annuity or for you to be the owner.

You can't help everyone, but for those you can, help them the right way. And although sudden wealth can be an opportunity to help others, it's also an opportunity for
you to create a better life.

# PRINCIPLE 8
# CREATE A BETTER LIFE

*Use the money to create the best life possible.*

Sudden wealth gives you the opportunity to make positive changes in your life. If you don't like the trajectory of your life, your windfall can help you find a better path. But it takes more than money. There are many horror stories of sudden wealth recipients who burn through their money and end up less happy with their lives. But sudden wealth doesn't sentence you to a life of despair either. As I've discussed, sudden wealth is an opportunity and money is just a tool. A powerful tool but still just a tool. You can use money to create a better life for yourself and others. Here is what the research on well-being and nearly two decades of hands-on experience working with sudden wealth recipients has shown me about how to create a better life…

## WANT LESS/MORE

Sudden wealth is just one piece of the happiness puzzle. To create a better life, you also need insight into yourself. A powerful tool to help you know what's working and what needs changing in your life is the want more/less inventory.

Simply take a piece of paper and draw a line down the center. Label one column "Want Less" and the other "Want More." List all of the things in your life that you want less of. This can include experiences, chores, feelings, and even people. In the other column, you write all of the things currently in your life that you want more of. Again, this can include experiences, feelings, and people. This simple exercise can help you get clarity over what you like about your life and where changes are needed.

One of the tragedies of sudden wealth is that recipients think everything has to change, but that's not true. Why throw out the baby with the bath water? If it's working, keep doing it. If it's not working, look for something different.

## DRUDGERY DESTROYER

"If I didn't have to [fill in the blank], I'd be so much happier!" Turns out you just might be happier. My experience tells me that if you can eliminate the tasks in your life that cause you anxiety, grief, or pain, you will experience more joy – or at least fewer headaches.

This may seem like a trivial suggestion, but if you are able to identify and eliminate many of the things you dislike doing, it can have a profound effect on your mood and level of well-being. Don't believe me? Think about three tasks you despise doing, and imagine a Saturday where you had to do all three of these. How would you feel at the end of the day? Grumpy? On edge? Angry? Probably all three. The things we hate to do can suck the spirit and the joy from us. It can turn an ordinarily calm and rational person into a bitter and indignant person instantly.

## BUY TIME

Time is the great equalizer. Sudden wealth or gradual wealth, we all have the same 168 hours in a week. Money can buy lots of things, but it can't buy you more time . . . or can it? The rich don't have more hours in the week than the poor, but they have more time. If you commute for two hours a day on public transportation and work two jobs just to make ends meet, you still have 168 hours in a week, but you may only have a few hours that are yours.

As a sudden wealth recipient, you can buy more time. This is one of the best ways to use money to increase your level of happiness. Elizabeth Dunn, psychology professor and author of *Happy Money: The Science of Smarter Spending*, says, "Anything that fundamentally changes the way you spend your time is good use of money – it's happy money."

When you are thinking about the life you want to create post-sudden wealth, think of how you can create more meaningful time for yourself. Are there tasks you are doing that you can outsource? Err on the side of using your money to buy more time instead of more things. It will have a greater impact on your overall satisfaction.

## INVEST IN EXPERIENCES

Do you relish in past purchases or past experiences? Do you cherish things you've bought or things you've done more? When your mind wanders, are you more likely to think of toys you have or trips you've taken? On your deathbed what memories will make you smile?

Money can be used to either buy material things such as cars, houses, and flat screen TVs, or experiences such as concerts, trips, Broadway shows, or special meals. Research shows that people seem to get more joy from experiences than from material things. As someone who's always preferred to hike through a jungle in a far off place over buying a Rolex, this makes sense to me, but it's not as intuitive for others.

Even if they aren't aware, the reason most people enjoy experiences over things is because experiences are usually shared with others, and if there is one thing (and only one thing!) psychologists agree on, it is that social connections and relationships are the biggest contributor to happiness. As discussed earlier, we become accustomed to things quickly, but not so with experiences. We not only can enjoy the anticipation of an upcoming experience and the

experience itself, but experiences also provide what I think of as "happiness capital," which is like a mental happiness account. Once you make a deposit, it continues to provide dividends. Invest in experiences.

Material things lose value over time – financially, of course, but also in terms of the amount of happiness they provide. Experiences, however, increase in value over time. My wife still talks about a childhood vacation she took to Disneyworld with her family. This experience was paid for decades ago but still produces enjoyment today. In fact, I think the emotional value of this trip has increased over time for her. Invest in experiences.

## MIRACLE QUESTION

One sudden wealth recipient who was a bit overwhelmed and in awe over his windfall, even after a couple of years, said, "This money is like driving a really fast race car in a residential neighborhood. I know there's so much more I could be doing with it, but I just don't know how." This is often the impression I have when I start working with a sudden wealth client – they know they have a life-changing opportunity in front of them, but they just aren't sure how to make the most of it. This can be an agonizing feeling as they flounder from one thing to the next, hoping they will stumble onto happiness.

The difference between the sudden wealth recipient who makes the most of their windfall by creating the best life possible and those who don't is that they have a vision for what they want their life to look like. They create a life by design instead of a life by default.

To help you create a life by design, start by answering the miracle question:

**Suppose that tonight while you sleep, a miracle happened and all of your problems are solved. But because you were asleep when the miracle occurred, you aren't aware that it even happened. When you wake tomorrow morning, how are you going to discover evidence of that miracle? What will you see yourself doing, thinking, or believing about yourself that will tell you a miracle has happened in your life or business?**

The miracle question is a standard question in Solution-Focused Therapy, a type of counseling that is short-term and focuses on what you want (i.e., solutions) instead of what you don't want (i.e., problems). How will you answer this question?

If this question is a bit too esoteric, consider an alternative. Fast forward five years from now. What needs to happen for you to feel fulfillment and that you've been able to create the best life possible with the sudden wealth?

Both of these questions force you to think about not just your future self, but your happy future self and what is needed to happen for you to feel this happiness. Instead of working toward a goal, these questions assume you already are experiencing everything you want and ask you to

work backward. In addition, they help you focus on what you want, rather than what you don't want.

Sudden wealth recipients who spend some time with either or both of these questions usually feel a sense of contentment because they may, maybe for the first time, begin to think about their future and realize that they can use their windfall and control it rather than feel it controls them.

Despite the stress and challenges of sudden wealth, you can use this opportunity to create a better life for yourself and for others. You cannot leave it to chance, however. It takes introspection and effort to create meaningful and lasting fulfillment.

## PRINCIPLE 9

# SET SPENDING LIMITS

*Develop a system for staying in control of your spending.*

If you committed to following just one of the 12 Sudden Wealth Principles, this should be the one. Knowing what you have and what you can spend is the most important. If you can't answer these two questions, you are flying blind. Forget about learning how to create a better life, growing your wealth, or staying on track. If you don't know how much you have, how can you expect to know how much you can afford to spend? And if you don't know how much you can afford to spend, how will you know if the house you are buying is reasonable or if it's going to bankrupt you? How can you enjoy the Caribbean cruise if, in the back of your mind, you don't know if you can afford it?

Fortunately, determining how much you have and how much you can spend is not rocket science. The goal of this principle is not to make you a professional financial analyst. Your advisors can calculate these numbers for you, but it's important to understand the story behind the numbers.

### HOW MUCH DO YOU HAVE?

The technical term for knowing how much you have is your "net worth." The calculation is simply:

**Assets - Liabilities = Net Worth**

For most people, this is a simple calculation achieved by adding their assets, such as the value of their house, 401(k) account, automobiles, IRAs, bank account, and brokerage accounts, and subtracting their home mortgage, credit card balances, student loans, and other debts they owe. If you own more than you owe, you have a positive net worth. If you owe more than you own, you have a negative net worth.

For sudden wealth recipients, it's often not quite this easy. Why? Taxes. The balance in your bank account may not be all yours. For lottery winnings, you will almost always owe income taxes on the money you receive.

Sudden wealth recipients commonly focus, or as behavioral finance economists call it, "anchor," on the big number but fail to account for taxes, expenses, fees, and other items that can dramatically reduce the amount of sudden wealth they actually have.

Congratulations! You just won a $60 million lottery. But did you really win $60 million? It sure seems like it. The big check you held up at the press conference says $60 million. The newspaper reporting your win reads $60 million. Your friends and family keep talking about $60 million. So $60 million it is. But is it? Sadly, not even close. Here's the breakdown:

A $60,000,000 jackpot equates to $33,500,000 cash. Subtract state tax (assuming NY) of approximately $3 million and federal income tax and Medicare tax of $14 million, and your net worth after tax amount is closer to $17 million.

Again, the goal in this principle is not to turn you into a financial analyst or tax expert. You pay your advisors for that. The goal is for you to become clear on what you have, not what you think you have. If you're going to anchor a figure, make sure it's $17 million and not $60 million! As one lottery winner confessed, "I was spending like I had $20 million, but I barely had $3 million to my name."

In addition to subtracting taxes, which your advisors can both help to reduce and calculate for you, the headline number also needs to be reduced by all of your debts. Subtract student loans, credit card balances, back taxes, loans to family members, automobile loans, unpaid child and spousal support, and any other debts you owe. What you're left with is how much you actually have. I call this the end of day number. Forget the headline number and focus on this number instead.

But even your net worth can be confusing. What does it mean if you have $10 million? For many sudden wealth recipients, they see their end of day number, but they can't get their head around what it means. If you've been making $50,000 a year and now your bank account shows $10 million, your sudden wealth can seem both overwhelming and also meaningless. One client recalled her sense of confusion: "I knew $22 million was a lot of money, but because it was an amount so outside my ability to relate, I couldn't grasp just how much it was. I mean, I knew it was more than $21 million and less than $23 million, but other than that, I had no comprehension of what it meant."

The danger with big numbers is that they can feel like Monopoly money. If you don't value your sudden wealth, you may be more inclined to squander it. To make your sudden wealth more understandable and relatable, convert it to income. A $10 million net worth is an intangible number on a page, but a $400,000 annual income means something. Even if you were making $50,000 a year and $400,000 seems like a ridiculous income, most sudden wealth recipients can still at least start get their head around this number.

## HOW MUCH CAN YOU AFFORD TO SPEND?

Your end of day number is the key ingredient in determining if you can quit your job, buy a new house, travel the world, pay for your children's college, and whether you can afford a new Tesla or a Honda. This number determines how much you can afford to spend.

Once you determine how much money you actually have, you can now calculate how much you can comfortably afford to spend. Seems obvious, but many sudden wealth recipients skip this critical step and go straight to spending their windfall. This is a financially fatal mistake and the quickest way to go through most, or all, of your money. Don't let this happen to you.

Most sudden wealth recipients (and even some advisors) approach this backwards. They add up all of their lifestyle expenses (e.g., mortgage, travel, insurance, entertainment) and then figure out how much they need to withdraw a year to support their lifestyle and cover their expenses.

How can you convert your end of day number into income? There has been a tremendous amount of research into "safe withdrawal rates." A safe withdrawal rate is a percentage of your portfolio that you can take each year without much risk of taking too much and spending down your account. For example, let's say you have $1 million in your investment account and you are taking out $150,000 a year to live on. Your withdrawal rate is 15% ($150,000/$1,000,000). Take out $300,000 a year and the withdrawal rate is 30%. The withdrawal rate is significant – it may be the most significant number in this book – because if you take out too much each year, your account will drop from $1 million to $950,000 to $900,000, etc., until you run out of money. As I was explaining this to a client who was having trouble understanding, a smile came over her face as she blurted out, "You don't want to kill the chicken that gives you eggs." Brilliant!

So what is a safe withdrawal rate? Your advisors will be able to help you determine how much you can spend, but the research shows 3% on the low side and 5% on the higher side, depending on the investment allocation and other factors. I typically use a 4% withdrawal rate as a rule-of-thumb. This means you can calculate how much you can comfortably spend each year without spending down your assets by multiplying your end of day number by 4%. For example, if you have $6 million, you can withdraw and spend approximately $240,000 a year ($6 million X 4%). The 4% rate is not a rule set in stone, but if your living expenses require you to withdraw more than 4% a year, this is a red flag. Work closely with your advisors to make sure you are not withdrawing too much.

Creating your ideal life is like chiseling a perfect sculpture. You start with a big block of stone, and with each decision you make, it takes its shape. As the artist, you have the freedom to sculpt whatever you desire, but with each strike of your hammer to create one shape, you are also making a decision to not make another. If you buy a larger house, it may mean you won't have as much to travel. Unless you have more money than you can spend, sudden wealth is not about having everything you want, it's about having what you want most.

Ultimately, you will find the right mix that works for you and your finances, but don't become too comfortable just yet. Your sudden wealth can be suddenly gone if you don't protect it . . .

# PRINCIPLE 10
# PROTECT WEALTH

Learn how to protect your wealth.

There are just a handful of sudden wealth events that create a windfall overnight, but there are an unlimited number of ways for your money to disappear just as suddenly as it came. In my first number one bestselling personal finance book, I called these dangers a “reverse lottery” because of the speed at which you could lose everything. Consider these as threats to your sudden wealth and to your way of life. These threats are constantly lurking and can pop up at any moment. Am I being too dramatic? Do you remember how you felt when you first found out that you would receive sudden wealth? Now imagine how you’d feel if you just found out it was all going to be taken away.

Threats to your sudden wealth can be internal or external. Internal threats are those over which you have control, such as overspending, giving away too much money, or making bad investments. This principle deals with external sources – those threats for which you have little or no control.

Even though external threats are often sudden and dramatic, you can minimize and even eliminate the top threats to your money by focusing on these four areas with the acronym SAFE:

1. **S**eparation/Divorce Preservation
2. **A**sset Protection
3. **F**raud Prevention
4. **E**state Planning

## SEPARATION/DIVORCE PRESERVATION

The statistics on divorce are sobering. Anyone who has experienced a divorce will tell you it is a tumultuous experience where no one wins. Emotions aside, there are few single events that can

do more damage to your finances as a separation or divorce. In addition to legal expenses, which can easily exceed six figures to resolve a contested divorce, it's not only possible but probable that you will lose at least half of your assets to your ex-spouse, as well as be required to make ongoing payments for years to come.

The laws are complex and vary by state, so it's important to work with an experienced family law attorney to help you navigate these issues. It's helpful to think in terms of pre-marriage and post-marriage when looking at how to protect your wealth. There are different tools and strategies available to you before you get married and others once you are already married.

## PRE-MARRIAGE

If you are not yet married and want to protect your assets from existing or anticipated sudden wealth, explore these ideas with your legal and financial team:

1. **Co-habitation Agreement.** Many states have cohabitation laws or recognize common law marriage. This means that if you live with your partner, even if you never get married, and then separate, you may have some financial liability. What does this mean? It means if you are wealthy, it's highly possible your ex-partner will find an attorney who will argue you made agreement to provide support, even if you didn't. In other words, even if you are not married, you need to be aware of this threat. One way to protect yourself is to enter into a cohabitation agreement with your partner. A cohabitation agreement is a document that outlines how property, assets, and debt will be divided, as well as how financial support will be handled among other issues. If you are living with someone, speak to a family law attorney about the financial risks you face if the relationship dissolves.

2. **Prenuptial Agreement.** A prenuptial agreement (often called a "prenup" or a premarital agreement) is an agreement you enter into before marriage that spells out who owns what, how income earned during the marriage will be treated, whether there will be spousal support, and other issues. Without a prenup, your ex-spouse can be entitled to a large portion of your sudden wealth. The laws are tricky and different in each state, but if you have a properly drafted prenup, it can save you hundreds of thousands or millions of dollars in legal fees, spousal support, and assets. If you are uncomfortable speaking to your partner about a prenup, talk to your attorney for ideas on broaching the subject or have your attorney facilitate the discussion in a joint meeting.

## POST-MARRIAGE

What happens if you receive sudden wealth and you are already married? Depending on several factors, there still may be a way to protect this money:

1. **Separate Property.** In community property states where assets are usually owned 50/50 by each spouse, separate properties are assets that are owned 100% by one spouse, given that he/she acquired it before marriage.

2. **Postnuptial Agreement.** A postnuptial agreement (commonly called a "postnup" or postmarital agreement) is an agreement that is signed after you are already married.

Although prenups can be fairly straightforward, postnups are technical, can take longer, and cost more. This doesn't mean you shouldn't consider one, but it means you need to discuss the facts of your situation with a family law attorney who specializes in drafting these documents. Like a prenup, however, a postnup details what happens in the event of a separation or divorce. A well drafted postnup can save a lot of money in legal fees and can protect at least some of your windfall.

3. **QTIP Trust**. A QTIP Trust is funded when the first spouse passes away. The surviving spouse has access to the assets transferred to the QTIP Trust until she/he dies, but she has no control over the assets at her death. Where the assets are transferred and who gets them is entirely the decision of the first spouse. The QTIP Trust is usually used by couples who have children from previous marriages and who want to ensure their spouse benefits from the assets but that their children ultimately receive an inheritance.

## ASSET PROTECTION

The numbers are shocking. Every day that your house, car, checking account, and investment accounts are exposed is one more day you are gambling against this type of risk, and the odds are not in your favor. Given these statistics, one of your primary objectives should be to protect your newly acquired sudden wealth.

Too many people use our legal system as their personal lottery. With a baseless claim and a contingency attorney, anyone can sue you. Lawsuits affect from all walks of life. No one is safe, including “The Godfather of Soul,” James Brown. His daughters sued him for more than $1 million, asserting that they should have received royalties on 25 songs they claimed to have helped him write, even though, at the time, they were as young as three years old.

The purpose of asset protection is to safeguard your sudden wealth from lawsuits. Asset protection does not defraud creditors or shield your money from illegal activities. Just as it is someone's legal right to sue, it is your legal right to protect what you have from the countless lawsuits disrupting the lives of so many. Protecting your assets is entirely legal and ethical.

## ASSET PROTECTION STRATEGIES

There are numerous strategies that may be available to you to protect your sudden wealth from lawsuits. This is a technical area of law where it makes sense to work with a specialist. The following are just a few ideas to consider…

### *UMBRELLA LIABILITY INSURANCE*

A personal liability insurance policy is your first line of defense, designed to protect you against judgments from property damage, bodily injury, and personal injury lawsuits. The personal liability policy is sometimes called an “umbrella” liability policy because it sits on top of your automobile and homeowner's insurance policy and covers claims that are either not covered by these policies or that are beyond the limits of these policies.

Umbrella liability insurance starts at $1 million in coverage and goes up from there. A good rule of thumb is to get a policy that is at least $5 million or twice as much as your net worth. Bodily injury and personal injury lawsuits frequently result in multi-million dollar settlements. Umbrella liability insurance is an inexpensive way to safeguard what you've worked so hard

to achieve.

### *IRREVOCABLE TRUSTS*

There are two basic forms of trusts—revocable and irrevocable. If you are sued, the type of trust you have becomes extremely significant. Most trusts are “living trusts” established for estate planning purposes. These living trusts are typically revocable, meaning those who set it up retain complete control of the trust. They can place assets into the trust, remove assets, change the trust beneficiaries, and even terminate the trust at any time. A revocable trust provides you with complete control and flexibility. This flexibility has a price. A revocable trust provides very little to no asset protection. If you are sued, your creditors assume your rights. Basically, they stand in your shoes. If you have a bank account, now your creditors have a bank account. If you have a revocable trust and full control of the assets within it, your creditors retain the same full control and access to that trust.

While a revocable trust provides you with full control, an irrevocable trust restricts control of the trust assets. When you establish an irrevocable trust, you immediately lose control over any assets you place in the trust. You can’t terminate the trust, change beneficiaries, or remove assets. The decision is irrevocable. This lack of control is what protects the assets within the irrevocable trust. When your creditor stands in your shoes, he is stuck with the same lack of control — he can’t terminate the trust, name himself the beneficiary, or remove the assets.

This protection comes at an obvious cost—you give up control of the assets. They are protected from lawsuits but you no longer have the flexibility or freedom to control them. Depending on the situation, it can make sense to place some assets in one or more types of irrevocable trust.

### *FAMILY LIMITED PARTNERSHIPS AND LIMITED LIABILITY COMPANIES*

Family Limited Partnerships (FLP) and Limited Liability Companies (LLC) will enable you to protect your assets while providing incredible income and estate tax benefits. The majority of states base their laws on the Uniform Limited Partnership Act (ULPA) and the Uniform Limited Liability Company Act (ULLCA). In those states, “charging order” protection is granted to owners of FLPs/LLCs. Their ability to provide protection from charging orders is the primary way FLPs/LLCs protect your assets.

The courts provide a charging order to your creditors following a lawsuit judgment or bankruptcy. The charging order allows your creditors to receive your share of any distribution due to you from a FLP/LLC. For example, if your neighbor breaks his leg walking on your driveway and successfully sues you, he is now a creditor—you owe him money. As a creditor, he has certain legal rights to what you owe him. If you have a FLP/LLC and get a distribution of $125,000 a month from it, the court may grant your neighbor a charging order that will instruct your FLP/LLC to pay him the $125,000 typically due to you every month. He will continue to receive the payment until you have satisfied your debt to him.

## FRAUD PREVENTION

On December 11, 2008, anyone with an investment or bank account took a collective gasp. It was on this day that Bernie Madoff was arrested by the FBI on suspicion of committing the

largest Ponzi scheme in history. Ultimately, thousands of clients were bilked out of billions of dollars. But, unfortunately, Bernie Madoff was not the only advisor stealing from clients. In the days and months that followed Madoff's arrest, hundreds of other Ponzi schemes were exposed.

It seems like a week doesn't go by that I don't see a headline about unscrupulous advisors taking client funds. As a long time viewer of CNBC's television show *American Greed*, I see just how depraved some people can be.

There are numerous ways to lose your money, everything from divorce to spending too much or making bad investments, but fraud is a different animal. It's theft, plain and simple. Although the media reports give the impression that financial fraud runs rampant, its frequency and the degree of damage it creates is far smaller than divorce or some of the other dangers to your assets. Nevertheless, theft does occur, and it can devastate someone's finances overnight.

There are hundreds of different types of financial fraud. Bernie Madoff operated a classic Ponzi scheme, but there are many others. Some types of fraud can wipe out a significant amount of money instantly (e.g., wire fraud) whereas others are more gradual (e.g., skimming). To protect yourself from fraud, you need to look at your areas of exposure. The most common areas of concern for sudden wealth recipients are:

1. **Investment advisors**
2. **Investments**
3. **Bill paying/Business managers**

### *INVESTMENT ADVISORS*

A good investment advisor will know more about you and your finances than almost anyone else in your life. They'll know how much you make, how you spend your money, how much you give to charity, and will often know about relationship issues before others. They'll know your background and who you are as a person. This can make for a deep, intimate, and satisfying relationship – one that can last for decades and is built on trust. It can also lead to abuse.

Crooked investment advisors can use your trust, coupled with their access to your financial accounts, to take advantage of you. Unless systems are in place, they could wire funds out of your account, overcharge you in fees, make investment recommendations into bogus companies, etc. A good rule of thumb is to trust, but verify. Regardless of how long you have known them, if they come to your children's birthday parties, or that they were referred to you by a family member or friend, never let your guard down. Don't blindly trust, verify instead.

You won't be able to eliminate all risk when you work with an advisor. By nature of what they do, they will have access to your accounts and personal data. Consider the following to protect your wealth:

1. **Research your advisor.** The first place to start is by finding the right investment advisor. Make sure to do a background check, and verify if they've ever had any regulatory issues.
2. **Independent oversight.** Hire an independent accounting firm to reconcile your bank and

investment accounts each month. They will track income and withdrawals and make sure there is no "leakage." The independent accounting firm should not be associated in any way with your advisor or the advisor's firm.

3. **Hire a consultant.** Instead of transferring your assets to an account in which the advisor has control, open a discount brokerage account at Fidelity or Schwab. Your advisor won't have access to this account, so you'll need to be more involved. It's not the best approach for most clients and advisors, but if you are overly concerned, it is a strategy that minimizes investment advisor fraud.
4. **Seek deep pockets.** There are many well qualified solo investment advisors who could provide you with excellent financial advice, but if they work alone or for a small firm without solid financial backing, you may have little recourse if you are defrauded. Work with mid-sized to large firms with hundreds of millions, if not billions, under management. Bigger firms tend to have better financial controls and oversight in place, and if you pursue legal action, a larger firm may have the resources to pay a claim. But don't assume you have to go with the large brokerage firms such as Merrill Lynch or Morgan Stanley. There are hundreds of independent mid-sized firms with just as much oversight who can pay a claim. What you're trying to avoid is the small firms or one-person shops.
5. **Require phone confirmations on wires.** No money should be wired from your account to an account not in your name without signature and verbal approval from you. This will help prevent unauthorized wires.
6. **Never sign blank forms.** Under no circumstances should you sign blank forms or documents. In fact, after you sign each form, get a photocopy of the form with your signature and/or take a photo of it with your phone. This will help prevent unauthorized wires and transfers from your account.
7. **Separate Custodians.** Your money should be held at a separate and unrelated firm from your investment advisor. Because Bernie Madoff was the investment advisor and held the assets, he was able to withdraw client funds and create fictitious monthly statements.
8. **Watch those statements.** Resist the temptation to toss the monthly investment statements into the drawer. Take the time to review your accounts for suspicious activity.
9. **Verify insurance.** Large custodians will have adequate insurance in place to protect unlawful withdrawals from client accounts. Verify your custodian has this.
10. **Watch those transfers.** If you are switching investment advisors or moving accounts, you will be required to sign an account transfer form. Pay close attention to this form. Verify where the money is being transferred, make sure it is in your name, and make a copy of the paperwork for your records.
11. **Check your checks.** Never sign a blank check and never make a check payable to your investment advisor. If you are making a deposit, make it out to the custodian.

### *INVESTMENTS*

Investment fraud can be intertwined with investment advisor fraud or it can be separate. For example, if you have a dishonest investment advisor, he may not steal from your accounts directly, but he could recommend an investment that is nothing more than an empty shell of a company, or he can suggest an investment in a company that he or an associate controls. But

investment fraud can originate not from the investment advisor, but from a “friend” or someone you meet at a party.

To mitigate investment fraud, stick to publicly traded investments, such as stocks, ETFs, or mutual funds, and avoid investments in, or loans to, private companies or real estate deals. If you are pitched an investment, have your financial advisor and attorney review the details.

### *BILL PAYING/BUSINESS MANAGER*

Because business managers have more control than investment advisors – they can write checks on your behalf – they require even more oversight and there needs to be greater safeguards in place to protect your wealth.

There are two main risks of fraud when working with a bill payer/business manager. The first is outright theft of your funds. Because they have access to your bank and checking account, they can simply write themselves checks or initiate wires out of your account. Even if you’re not paying that much attention, you will likely notice checks paid to them or transfers out of your account. It’s hard to mask these transactions for too long. The other risk, and this one can be difficult to detect and can be perpetrated for years, is making relatively small payments to shell companies they own, ordering items with your credit card, opening new lines of credit in your name, and hiring their friends on your behalf and overcharging for services. These are much harder to detect, but with systems in place, you’ll be in a much better position to catch these and protect your wealth.

If you have anyone paying your bills – whether it is a business management firm or your bookkeeper – keep these ideas in mind:

1. **Open a separate bank account.** Transfer money into this account each month to cover your monthly expenses and no more. This limits the amount of money your business manager has access to at any one time. If they were to steal your funds, they would be limited to one month’s worth of bills.
2. **Use an account aggregation service.** This keeps you on top of the activity in your accounts as things happen instead of having to wait for the monthly statement.
3. **Get copies/notifications on all accounts.** Don’t rely exclusively on the reports your business management firm produces for you. Although they may be easier to read than the bank or credit card statements you receive, you need to look at the original statements to reconcile your accounts.
4. **Limit authority.** When available, give your business manager “inquiry only” access. This allows them to call on your account and ask questions, but won’t give them the authority to open new accounts or withdraw funds.
5. **Use a separate accounting firm.** Hire a separate accounting firm or independent consultant to review your accounts, the statements the business manager provides, and double check the numbers each month.
6. **Limit check writing.** Give them check writing authority, but set a limit on the maximum size of the check they can write. This won’t prevent them from writing multiple checks to the same payee, but it provides some protection from large single checks/withdrawals.

7. **Eliminate check writing.** Instead, have your business manager prepare a list of the invoices and the checks you need to write each month. This keeps you in full control while lessening the burden of bill paying.
8. **Conduct spot audits.** Either you or your assistant can call vendors randomly to confirm invoices and that bills were paid.
9. **Protect your credit.** Consider signing up for a service such as LifeLock, which freezes your credit and prevents anyone from opening accounts in your name. Also consider using a credit monitoring service.

## ESTATE PLANNING

Divorce isn't the only way you can lose 50% of your sudden wealth overnight. Estate taxes can deprive your family and heirs of nearly half of your net worth. As soon as you know you will be coming into sudden wealth, it is time to start a conversation with an estate planning attorney. In addition to the basic estate planning documents, such as a Will, Power of Attorney, and Living Will, you should also consider more advanced estate planning documents to protect your interests and to (legally) minimize estate taxes, including the living trust, family limited partnership, and an irrevocable life insurance trust.

### *LIVING TRUST*

A Living Trust is the most common and basic of the advanced solutions discussed in this chapter. It is created who you are alive and is revocable — meaning you can modify or terminate it at any time.

A Living Trust has two benefits. It allows you to avoid probate and have greater control of your assets.

### *FAMILY LIMITED PARTNERSHIP*

The use of a Family Limited Partnership (FLP) to protect your sudden wealth was discussed earlier, but FLPs can also minimize estate taxes. It's called a Family Limited Partnership because ownership of the partnership is typically limited to members of the same family. The FLP is a partnership with two types of owners, at least one general partner and at least one limited partner.

The primary objective of an FLP is to reduce the size of the family's estate in order to lessen the estate tax on the assets, while also allowing the parents to retain full control of the assets. There are two ways an FLP can reduce or eliminate the estate tax:

1. **Discount for lack of marketability.** All things being equal, would you rather own an investment that you could quickly and easily sell through a large market of buyers or an investment that would be difficult or impossible to sell because there is no market of potential buyers? In other words, would you rather own $10,000 of Microsoft stock or $10,000 of a company that you've never heard of and that no one would ever buy from you? Of course, it would be better to own an investment you could actually sell. Owners of an FLP are at a disadvantage. Who in the world would ever buy your interest in Joe Smith's FLP? As a result of this limitation, the IRS lets you reduce the value of the FLP. For

example, let's say assets valued at $2 million are transferred into an FLP. As soon as they are in the FLP, they are considered to be worth less than $2 million because the owners would have a hard time selling their partnership interest. The discount may be 15%, 20%, or even more.

2. **Discount for lack of control.** Control is valuable. The limited partners in an FLP have no control over the operations of the FLP, how the assets are invested, or when to distribute partnership income. The limited partners are essentially powerless. As a result of this lack of control, owning an interest in an FLP is not as valuable as owning an interest in an investment where you have complete control. The IRS allows a discount for lack of control, usually between 20% and 30%.

### *IRREVOCABLE LIFE INSURANCE TRUST*

An Irrevocable Life Insurance Trust (ILIT) sounds more complicated than it is. Life insurance proceeds are not subject to income tax. If you are the beneficiary of a $10 million life insurance policy, you don't have to pay a single dime of income tax. This is one of the tremendous advantages of life insurance.

Life insurance has a dark side that is rarely discussed. Although the beneficiary of a life insurance policy receives the sum without paying tax, the full value of the death benefit is included in the estate of the deceased. For example, Cathy is insured for $10 million and Beth is the beneficiary on the policy. When Cathy dies, the insurance company will issue a check payable to Beth for the full $10 million. Beth doesn't report the $10 million and isn't taxed on it. So far, so good. When it comes time to complete Cathy's estate tax return, the executor will list all of Cathy's assets—including the $10 million life insurance policy. Cathy's life insurance policy increased her estate by $10 million. Now, Cathy's loved ones may be subject to an estate tax approaching 50% on Cathy's estate.

This is where an ILIT is used. Instead of Cathy being the insured party and the owner of the policy, Cathy could create an ILIT and have it own the policy. At Cathy's death, Beth would still receive the $10 million tax-free, but it wouldn't be included in Cathy's estate because she didn't own it, the ILIT did.

If you already own a sizable life insurance policy and want to remove it from your estate, you can transfer it to an ILIT. Warning: Based on peculiar estate tax laws, if you die within three years following the policy's transfer to the ILIT, the value of the life insurance proceeds will still be included in your estate. If you haven't yet purchased the life insurance policy, have the ILIT purchase it, and then the three-year "look-back" rule won't apply. If you transfer a policy, you have to wait three years from when you owned it for the value to not be included in your estate, but if an ILIT purchases the policy, you never owned it so the three-year rule doesn't apply.

For many sudden wealth recipients, it's not enough to just protect their new wealth. They want their money to appreciate over time to fund their lifestyle and to create a legacy for their family. The next chapter will help you grow your new wealth.

# PRINCIPLE 11
# GROW WEALTH

*Learn strategies to grow your wealth.*

The majority of sudden wealth recipients need their money to grow over time. There are those rare sudden wealth events when the windfall is so large that the client can pay for their lifestyle and do all the things they want without needing any growth. For everyone else, growth needs to come from investing.

Investing doesn't have to be complicated and you don't need to take excessive amounts of risk to generate a decent return. The problem is that many sudden wealth recipients lose their money by making bad investments. If I had to guess, I'd say 95% or even more of bad investment decisions that end up losing all of their value could be avoided by sticking to a simple rule:

***Invest in green investments, be cautious of yellow investments, and avoid red investments.***

## GREEN INVESTMENTS

Green investments, just like yellow, red, or any investment, can lose all of their value. In other words, a green investment can go to zero. What makes it a green investment is that it provides more liquidity, regulatory oversight, transparency, and accessible information than other investments.

The bulk of your investment portfolio should consist of green investments, such as:

1. **Mutual funds.** A mutual fund is a portfolio of other investments. For example, a single mutual fund may own 50, 100, or even 500 different stocks. Your one investment in the fund provides an investment into these holdings.

2. **Exchange traded funds.** Similar to a mutual fund, an exchange traded fund ("ETF") is a single security that contains other investments.
3. **Certificates of deposit.** Commonly referred to as CDs, these are loans mostly to banks that are typically FDIC insured.
4. **Fixed annuities.** A fixed annuity is an insurance contract that promises to pay you a certain amount of income, similar to a loan or bond. Fixed annuities are safe investments that can add stability and a fixed amount of income to a portfolio. Just be careful of high fees.
5. **Individual bonds.** If you have a large enough portfolio, owning individual bonds (as opposed to a mutual fund of bonds) has a couple of benefits. You can create a portfolio that is customized to your needs and if you hold until maturity, you get your principal back.
6. **REITs.** Real Estate Investment Trusts (REITs) are similar to mutual funds but this "basket" holds real estate.
7. **Money market accounts.** These are similar to cash accounts.

## YELLOW INVESTMENTS

Yellow investments can still make sense for part of your portfolio, but be careful not to have too much invested in these types of investments:

1. **Individual stocks.** Undoubtedly, you'll want ownership in stocks through mutual funds and/or ETFs, but be careful not to direct too large a percent of your portfolio in individual stocks unless you have a large enough portfolio where you can create a diversified allocation.
2. **Focused ETFs.** Be wary of double market exposure ETFs that provide two times the market returns, or those ETFs that are concentrated in a single sector.
3. **Precious metals.** Metals such as gold and silver can be good hedges against inflation, but you shouldn't have a large allocation of precious metals.
4. **Variable annuities.** Unlike fixed annuities (a green investment), variable annuities should be used less frequently and only in specific circumstances.
5. **Whole life insurance.** Based on the size of your estate and your estate tax projections, you may want a permanent whole life insurance policy. Often these are sold as "investments," and in some circumstances, they may be appropriate, but use only in moderation and if there is a need for the insurance.
6. **Hedge Funds.** Hedge funds are like ice cream. There are hundreds of flavors. Some are conservative whereas others swing for the fences. The hedge fund as an investment vehicle is yellow because of the high fees, lack of transparency, and illiquidity. Be careful.
7. **Closed end mutual funds.** Like a regular open-ended mutual fund, closed funds invest in a basket of securities. However, closed-end funds have certain characteristics that make them less ideal for most investors. Use in moderation.
8. **Options (covered calls and long puts).** Options are a sophisticated investment that can be used to protect against losses and to increase your income.

## RED INVESTMENTS

Investing and finance is fast-paced and exciting with high emotions and drama ... in the movies. In the real world, financial planning is slow and methodical. The glitz and glamour we think of on Wall Street doesn't translate into a good, long-term financial strategy. Red investments are sexy. They lure investors with their potential for huge returns and for their novelty. The following are Red because of the lack of liquidity, high volatility, and a track record for creating more bankruptcies than fortunes. Most sudden wealth recipients should avoid these unless you have a very large portfolio and can take a high amount of risk with 5% or so of your portfolio.

1. **Limited partnerships**. Limited partnerships ("LPs") are highly illiquid investments typically in private companies or real estate projects. Your money can be locked up for a decade or more and there will often be very little transparency.
2. **Private equity and venture capital.** The idea of getting into a hot tech company before it goes public is the dream of every investor, but the track record of private equity and venture capital is less than stellar. Your money can be locked up for years and you will have little idea what is going on behind the scenes.
3. **Individual private companies.** That company your brother-in-law wants to start or the iPhone app your personal trainer wants to create are both examples of private companies. If you haven't been already, you will be asked to invest in one (or probably many more) of these companies or ideas. Steer clear.
4. **Private loans.** Friends and family may also ask you to loan them money for business ventures or for personal reasons. Avoid personal loans.
5. **Options.** Covered calls and puts are yellow investments because they are good hedges for your portfolio, but selling puts and buying calls are considered red investments because they are an effective way to lose a lot of money. Avoid these kinds of options.
6. **Timeshares.** Now more euphemistically called "vacation ownership," these can barely be considered investments. Do not invest.
7. **Foreign currency.** Don't touch foreign currency investing or trading.
8. **Futures.** Avoid futures trading like the plague.

### 5 Ugly Investments To Avoid

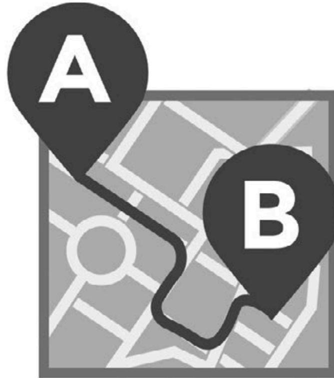
Thinking about investing in one of these? Think again. Here are the top five private investments to avoid…

1. **Restaurants.** These take a lot of capital, time, and expertise and most do not make it more than a few years.
2. **Mobile applications.** Mark Cuban calls mobile apps the "most brutal business in the world."
3. **Clothing.** A few celebrities have done this successfully, but they usually have a big brand backing them. Fashion is fickle. Save your money.
4. **Bars.** If you want a place where everyone knows your name, invest in a bar. If you want to grow your money, don't.

5. **Real estate development.** Investing in real estate can be great way to build wealth, but investing in raw land with the hope of developing it is risky. It requires a substantial amount of capital and luck.

Once your financial and investment plan is in place, you should sit back and relax . . . but not for too long. Your plan needs constant attention, tweaking, and nurturing. It's one thing to start your journey in the right direction, but it's another to stay on track.

# PRINCIPLE 12
# STAY ON TRACK




*Plug into an easy system to stay on track.*

The goal of this Sudden Wealth Principle is to create an early warning detection system for your finances so if there is a problem, you become aware of it immediately and before it can cause too much damage. Sometimes, threats will come out of nowhere, and for these, you want to make sure your assets are protected, but many threats can be seen coming from a mile away. The problem is that many sudden wealth recipients (and their advisors) don't know what to look for and only see the problem after considerable, and sometimes irreparable, damage has been done.

Setting financial safeguards and staying on track is one of the most important principles of sudden wealth, but it is also one of the most neglected. The reason you read so many riches to rags stories is because either the sudden wealth recipients never created a financial plan or they created the financial plan but didn't stay on track. This principle will help you (and your advisors) create the framework that provides the oversight, reports, and "early warning detection system" to ensure you make changes when necessary to stay on track.

## TRACK YOUR SPENDING AGAINST YOUR TARGET INCOME

You must continuously track your spending against your withdrawal rate. Every month, you should see how much you've spent and how much you've withdrawn. A month or two does not make a trend, but if you see several months of increasing outflows, you can make adjustments before too much damage is done.

Again, the reason this Sudden Wealth Principle is so critical is because it can prevent large and unrecoverable financial losses. The statistics on sudden wealth are horrible – a large percentage of sudden wealth recipients go through all of their money quickly – but by tracking your spending against your income each month, you can avoid becoming another statistic.

One of the greatest joys sudden wealth recipients report is that they can stop clipping coupons and pinching pennies. It can be a burden to have to watch where every dollar goes each month, so it's natural for some to want to avoid all forms of budgeting after they receive their sudden wealth. Fortunately, most sudden wealth recipients don't need to budget or keep detailed notes of their spending in the same way, but you will want to keep abreast of where your money is going.

I prefer when a client, or their bookkeeper, keeps track of their expenses using a software program such as QuickBooks or Quicken because it provides the details. Clients may not care, but it allows me to spot trends and to make better projections. For example, it's a red flag when I see a client's basic living expenses increasing and/or when their fixed expenses are increasing. In either situation, the client loses his/her flexibility to reduce these expenses. If they remain high, especially if their basic living expenses are approaching the maximum portfolio withdrawal rate, we need to take immediate action.

At a minimum, review your monthly withdrawals with your advisor to make sure you are staying within the plan. This is especially important in the beginning, as you are becoming used to your new lifestyle and income level. With time and experience, you can review this every quarter.

## MONTHLY REPORTS

Stay on track by reviewing a couple of key reports each month. You'll want to review your net worth at least once a month in the beginning, and then as you become more comfortable, at least once a quarter. Your net worth shows you your assets and your liabilities. If you are spending too much and having to withdraw funds from your investment accounts or if you increased your liabilities, this will be reflected in your net worth.

You shouldn't be concerned about fluctuations in your monthly net worth, but you are looking for trends and issues so you can make adjustments sooner rather than later. If you or your advisors don't track this closely, monthly declines could continue for months, or even years, and can erode your wealth.

In addition to a net worth report, you should also review your investment accounts. These accounts will experience volatility, going up and down each month, but you should still be aware of what is happening. I've found that the clients who are most nervous about investing become much more comfortable just by reviewing what is happening in their accounts.

Your advisor can create these reports for you or you can use an online system that will provide you with an updated net worth and investment snapshot at any time. My clients use a web-based system we call 360 WealthView to see real-time reports from their computer or phone. Regardless of the system you use, make sure you make a point to review it monthly.

## FLASH ACCESS TO YOUR ADVISOR

Note: Not all financial advisors will agree to this, but I think it's invaluable for new sudden wealth recipients. Clients who experience a windfall are thrust into new and foreign situations. If they've never had to deal with complex tax, legal, or financial issues, it can all be overwhelming. The one thing that can alleviate their anxiety and uncertainty more than anything else is to be able to ask a question or voice a concern to someone who understands them and their situation.

As I've written about throughout this book, the worst thing you can do is make decisions when you are feeling stressed. If you are feeling unsure or stressed, contact your advisor to prevent bad decisions. I've talked many clients "off the ledge." Sometimes, they are considering a large purchase and want a second opinion, and other times, they just want reassurance.

Talk to your advisor and ask them if they will be available for after-hour emails, text messages, or phone calls. As long as it is not a daily occurrence, your advisor should agree to this. I want my clients to call me whenever they have an issue, even if it's Saturday at 9pm. I want them to know I'm always accessible, and often, it's enough just knowing that they can talk to someone if they get into a bind.

My firm created a mobile app that lets clients reach us immediately via email, text, or phone, but at a minimum, ask for your advisor's cell phone number and use it if you feel the need.

### *REVIEW SYSTEM FOR LARGE EXPENSES*

Another way to stay on track is to not get off track. Some sudden wealth recipients adapt quickly to their new situation and stick closely to their spending plan, but others struggle. If you find that you are making impulse purchases and/or are consistently spending too much, consider creating a spending review system with your advisor. For example, make a commitment that you will review all purchases over a certain amount with him before you buy, allow for a "cooling off" period between the impulse and the purchase, or both. If you find yourself trying on jewelry you know you can't afford, call your advisor or delay the purchase until you can talk to him.

## 6 DEADLY SUDDEN WEALTH SINS

Sudden wealth can be a wonderful opportunity to create a better life for yourself and others. Many sudden wealth recipients manage this process deftly and with few issues. It's critically important to stay on track and to adjust your plan when necessary. It's also important to stay away from these six common sudden wealth sins, which have led to many bankruptcies…

1. **Spend too much.** It may be incomprehensible for someone who was making $50,000 a year to go broke after receiving a $10 million windfall, but it happens. It might not disappear in a year or two, but if the person is consistently making bad financial decisions, they can go through the money in less than a decade – and much quicker if they also engage in one of the other sudden wealth sins below. Go slow, work with experts, figure out how much you can spend, and then stay on track. If you still have problems, work with a therapist or money psychologist. The few hundred you spend learning about your triggers and underlying issues will be one of the best investments you could make.
2. **Give too much.** Sudden wealth recipients who spend too much on themselves will often give too much as well. When confronted with giving too much to family, one client confessed, "I feel guilty having this new house and stuff when the rest of my family is still struggling. I can't enjoy what I have unless I give them what I have." There are often familial pressures and hidden expectations to take care of the family that can weigh on the person. Helping those in need and others to create a better life for themselves can be one of the most rewarding uses of your windfall, but there is a limit to what you can do. Stick to your spending plan, help the right way, and stay on track with monthly

reports. Work with your advisors to create a long-term and sustainable plan to assist your family. Have your advisors become involved in the discussions with your family, if necessary.

3. **Divorce.** As was discussed in Sudden Wealth Principle 10, divorce can wipe out 50% or more of your wealth overnight. Divorce is also one of the most common reasons why sudden wealth recipients lose their money. Protect yourself with co-habitation, prenuptial, and postnuptial agreements. Work with a family law attorney to ensure you have some protection against separation or divorce.
4. **Invest badly.** A common and large source of loss for sudden wealth recipients is making bad investment decisions. Many smart people have made bad decisions and have invested too much of their sudden wealth in red investments. Avoid these and stick to mostly green and occasionally some yellow investments. Work closely with your advisors to review each investment – especially those that are yellow or red.
5. **Fraud.** The Bernie Madoff Ponzi scheme proved that you cannot trust anyone. Madoff was a highly respected investor and was once chairman of the NASDAQ stock market. The onus is on you to create a system of checks and balances to protect your money. Follow the guidelines in Sudden Wealth Principle 10 as a starting point. Also, never invest in a company or venture your advisor recommends in which he is also involved.
6. **Lawsuit.** In an instant, all of your assets could be in jeopardy if they are not protected. Lawsuits are all too common, especially for people who have wealth. Your sudden wealth makes you a larger and more visible target. Work with an asset protection attorney to shield your assets from creditors and lawsuits.

One of the most successful ways to stay lean is not diet. All it requires is weighing yourself each morning. If you are more than three pounds from your target weight, you simply eat less until you fall back into your ideal range. By weighing yourself each day, you can stay on track and make minor adjustments before too much time has passed and too much damage has been done.

Stay on track with your financial plan so you, too, can make minor adjustments and so you and your future generations can enjoy your sudden wealth.

# SUDDEN WEALTH
# INHERITANCE

*Building a new financial plan.*

The most common form of sudden wealth is from inheritance. According to the Boston College Center for Retirement Research, two-thirds of baby boomers will receive an inheritance and the figures are staggering – baby boomers alone will inherit $7.6 trillion over their lifetime! What's even more staggering is how quickly this wealth disappears. The Wall Street Journal reports that family money rarely survives the transfer for long, with 70% evaporated by the end of the second generation and 90% by the end of the third.[1]

Why is so much family wealth spent down so quickly and how can you make the most of your inheritance? The goal of this book and this chapter is to help you make the best decisions you can with your sudden wealth. I've worked with many clients who have received their sudden wealth through inheritance over the past two decades. Although each situation was different, what is common to nearly all of them is the weight of the inheritance the clients felt.

Unlike the other forms of sudden wealth, a death is necessary for an inheritance. There are stories of people receiving an unexpected phone call about a long-lost relative who passed away and left them a small fortune, but far more common is when the inheritor is close to the person who passed away. A death can be difficult for anyone to navigate, but add in a large inheritance and it can become even more complicated.

An inheritance can be a welcome surprise or it can be a sad reminder of who they lost. A large inheritance that pushes you out of your financial comfort zone can create anxiety about how to best manage the money. Clients have reported that they feel a sense of gravitas and

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[1] Sullivan, Missy. "Lost Inheritance:" The Wall Street Journal. Dow Jones & Company, 8 Mar. 2013. Web: 5 January 2014.

responsibility – that they need to be extra careful with the inheritance. Some have said that even though they know it is their money and that they can do what they want with it, it feels borrowed.

Another critical factor with integrating the money into their life is the source of the inheritance. A death and subsequent inheritance can evoke a wide range of feelings that cause the recipient to treat the money differently, depending on their relationship with the deceased. If the relationship was troubled or if the death was premature, it is not uncommon to see the recipient consciously or unconsciously disown the money and divest it by spending lavishly or making risky investments.

## HOW WE RESPOND TO AN INHERITANCE

However, not all sudden wealth recipients react the same to an inheritance. In my experience, beneficiaries respond to the money in one of three ways:

### *ACCEPTANCE*

Good or neutral relationships with the deceased often generate a healthy response to new found wealth. They accept the money, and although they may still have a strong emotional connection to the deceased, they don't displace these feelings on the money. They view their grief separately and hold no grudge on the money. They hold a healthy view of what the inheritance means – it won't magically relieve their grief, but it isn't responsible for the loss either.

Accepting the money is the healthiest response. They are able to enjoy the benefits of the money without any negative emotions or guilt.

### *CONFLICTED*

Others feel conflict over the money. They may appreciate the value it provides but it still creates feelings of anger, sadness, or guilt. They use the inheritance to better their lives, but the money feels like a bribe. It is hard for them to separate the money from the loss. The new house they were able to buy from the settlement is a constant reminder of the loss or injury. They have a hard time enjoying the money or what it has provided because it is a constant reminder of their pain.

Time and distance from the loss can help alleviate some of the conflict, as can speaking to a therapist or money psychologist, to separate the pain from the money.

### *REJECTION*

A third response some inheritors take is to disassociate themselves from the inheritance. This can occur because of the grief surrounding the loss or if they inherited the money from an abusive parent, for example. Either consciously or unconsciously, instead of trying to separate the pain from the money, they simply try to separate themselves from the money. They are in so much pain that they think they will experience a reprieve by eliminating the money. This can take the form of giving the money away, spending recklessly, or taking excessive risk.

If their advisors aren't aware of what's happening, they will think the client is just being foolish with their money. They're not. What they're doing makes perfect sense, but if they continue, they will accomplish their "goal" and run out of money.

If you have strong negative feelings about your inheritance, start by putting a temporary freeze on your spending. Ask your financial advisor to help you create systems that will support your desire to spend less. Then work with a therapist or money psychologist. You won't get emotional clarity around the money overnight – it will take time and work – but the sooner you get started, the sooner you will have a healthier reaction to the money and can start to use it to improve your life and the lives of those around you. If you are going to spend part of your inheritance, you should at least be able to enjoy it.

### *Q—I inherited an investment account. What should I do with it?*

A—One of the pitfalls you want to avoid when inheriting investments is hanging on to assets that aren't appropriate for your asset allocation or risk profile. A few years ago, a client inherited a $65 million position in a large and well known technology company. After several months of meetings and deliberation, we were finally able to convince her that having most of her net worth tied to one company's stock was too risky. We entered into a variable prepaid forward contract hedging strategy to lock in the value of the stock and to protect against losses. Today, it's no longer a publicly traded stock. By looking at the inherited investment objectively in light of her other assets, the client was able to make a rational decision, which ended up saving her over $40 million in investment losses. Although you probably didn't inherit $65 million of stock from a single company, whatever you did inherit needs to be analyzed for appropriateness. Have your financial advisor run a risk analysis of each holding and the inherited portfolio as a whole. Look for investments that are too risky or just not appropriate. For example, if you live in California and inherited a portfolio of New York municipal bonds, they may not be right for you. Likewise, if you inherited municipal bonds but pay little income tax, you may be better off with taxable bonds.

In addition, often, an inheritance of investment assets will shift your asset allocation. For example, if your allocation is 60% to stocks and 40% to bonds and you inherit an all stock portfolio, this could bump your stock allocation to 80% and drag down your bond allocation to just 20%. Work with your financial advisor to make sure the influx of new assets doesn't shift your allocation beyond your target percentages in each asset class.

Also, make sure that each investment you inherited doesn't violate your investment parameters. For example, if you have a rule that you will not invest more than 20% of your total portfolio in any single mutual fund and you inherited a fund that represents 30% of your portfolio, you will need to sell part of the fund to bring its percentage down to, at most, 20%.

Lastly, review each investment to make sure it fits within your investment beliefs. For example, a client recently inherited a large portfolio of stocks, including a position in McDonalds. The problem with owning McDonald's stock? It didn't violate her risk tolerance or investment parameters, but it did violate her ethics . . . she is a vegan and doesn't support the eating of

meat. If you feel strongly about tobacco, energy, defense, or other companies, carefully review what you inherited to be sure your investments reflect your investment morals.

### *Q—I inherited a stock from my dad and my advisor thinks I should sell it, but I don't want to. What should I do?*

A—It's easy to see how someone could have an emotional attachment to the chair Dad always sat in, his fishing pool, or even the house in which you grew up in, but a stock? Yes, it is quite common to have an emotional attachment to a stock.

I'm never surprised when a client says, "I can't sell that stock. It was Dad's favorite." So, now I ask if there are any holdings that have an emotional connection, and more often than not, there are. If the stock holds sentimental value, and if it fits within your asset allocation and risk profile, then, by all means, keep it. However, if it doesn't fit or if it is too concentrated, sell it. If you can't bring yourself to sell all of it, sell some of it. Keep a handful of shares. Does it really matter if you have 100 shares or 10,000? Would the deceased want you to own it if he knew it wasn't right for you? Are there other ways to keep his legacy without jeopardizing your finances?

**CAREER PLANNING FOR THE MULTIMILLIONAIRE**

Receiving an inheritance at a young age can pose certain challenges. If you are young and have just inherited a large amount of money or have reached adulthood and now have access to a trust fund for your benefit, your friends may be planning their careers, but you may be conflicted. Do you get an entry level job and start your career even though you have millions in the bank and can afford to not work? Work with a therapist or career coach and brainstorm your passions and possibilities. You have the financial ability to focus on a life path that focuses on meaning and purpose and less on finances.

### *Q—I received a large inheritance some time ago but haven't done anything with it. Is this okay?*

A—Absolutely. Don't feel pressured to do anything with your inheritance until you are ready. It's perfectly fine to take your time and, as Sudden Wealth Principle 2 encourages, to slow down. However, I've also seen people leave their inheritance in cash for decades or more. If you are pushing a year or two and haven't done anything with the inheritance, this may be fine, but it also may be because you are scared to do anything or are trying to pretend it isn't there. In either case, there is too much emotion wrapped around the money. It's normal to feel a sense of responsibility to do the right thing, but if you are feeling so much that it is paralyzing you from enjoying the inheritance or investing it, work with your advisor or therapist to get free of the weight it has over you. Consider starting small and gradually investing. Take a small part of your inheritance and invest it so you can see how the stock market works and so you can get a level

of comfort. Buy CDs and have the interest deposited into your checking account so you can witness first-hand the power of investing. Use some of the inheritance on a trip or a toy. The idea is to break the emotional grip the inheritance has on you and for you to enjoy it.

### *Q—My spouse is pressuring me to use the inheritance to pay off credit card debt. What should I do?*

A—Financially speaking, if you are paying 16% credit card interest but have a bank account with several hundred thousand dollars in cash, it's best to pay off the credit card debt. If you are feeling pressure because it's not what you want to do, explore why you don't. Often, in these situations, it's because paying off credit card debt seems like a "waste" of the inheritance and that there is guilt around using the money in this way. It's best to share these feelings with your spouse and to talk to your financial advisor. If I've learned anything over the years, it's that humans are not always rational, but we always have a reason for what we do . . . even if it's only logical to us.

### *Q—I'm married and I'm expecting to get an inheritance shortly. What should I do?*

A—If it's a small inheritance, you are probably fine having the money deposited in a joint account with your spouse. If it's a larger inheritance, or you think you'll be getting a divorce, seriously consider keeping the money in a separate account in your name only. Even if you are married, inheritances are special in that if you keep the money separate, your spouse will not have any ownership over it or claim to it. If you mix the inherited money with jointly owned money (e.g., depositing it in a joint bank account), it's difficult to later make the case that it is your separate property. It's best to keep the account clean by not commingling the inheritance with other assets. This is easily accomplished by opening a new, separate (i.e., non-joint) bank and investment account and depositing the assets into it. Have a conversation with your financial advisor and estate attorney to make sure everything is indeed kept separate. Also, consider creating a post-nuptial agreement to further protect your assets.

### *Q—I'm only 22 years old and I'm inheriting several million dollars. Is there anything special I should know?*

A—You have a wonderful opportunity to use the money to create the best life you can imagine. Read and re-read this book and work with a good group of advisors you feel comfortable with. One of the challenges with inheriting so much wealth at such a young age is that your identity hasn't fully formed yet. The money can be a tool to help you experience new things and help you grow into the person you want to become. The money can also be a hindrance by acting like a crutch.

I've seen young sudden wealth recipients lose their motivation to finish school and contribute to the world, but this doesn't have to be your fate if you see money as a means to an end and use it to better yourself.

One of the best things you can do is to find others going through the same thing you are, somewhere you can share your fears and struggles and also learn how others are successfully navigating their new wealth. There are many programs available. We are developing groups across the country, so go to **SUDDENWEALTHSOLUTION.COM** so we can help connect you with a group.

### *Q–I inherited some art and jewelry. Is there anything special I should do?*

A—Yes, contact your property and casualty insurance agent. You'll want to take photos of each item as well as video. Get copies of the purchase receipts or appraisals that were done for the estate. Schedule each of the items so they are protected. If you don't have one already, consider getting a safe deposit box at your bank to store the jewelry.

### *Q–What other things should I do after receiving an inheritance?*

A—Call your property and casualty insurance agent and boost your umbrella liability policy limits. At a minimum, have $5 million worth of coverage, but most sudden wealth recipients should have $10 million or more of protection.

Also, check your own beneficiary designations on IRAs, 401(k)s, and life insurance policies. If the deceased is one of your beneficiaries, make sure you replace them with someone else.

Similarly, review your Will and estate plan documents. If the deceased was named as guardian for your children, executor of your estate, or trust beneficiary, have these documents updated.

**INHERIT WISE**

The quickest and easiest way to gain money confidence is to participate in our online wealth prep course. Through videos, drawings, and real world examples, you'll gain the money confidence and skills you need to make the right financial decisions so that your inheritance becomes lasting wealth. Go to suddenwealthsolution.com to get wealth ready!

### *Q–I'm the executor of my parent's estate. How can I avoid disputes with my siblings over my parent's things?*

A—The death of a parent can either bring siblings closer together or pull them apart. I've seen many situations where siblings have become enemies, disputing an inheritance or fighting over seemingly insignificant items. Even the strongest and tightest bonds can be tested in the highly emotional aftermath of a loss. And if the relationship is already tenuous, a parent dying can break a relationship. Obviously, you'll want to minimize any disputes with family members and retain your relationships.

There is no single solution, but here are a few ideas I've found to be effective in keeping everyone civil and committed to a positive resolution. First, the executor/trustee should keep everyone apprised of what is happening. If that's your role, you can never provide too much information. Create an email list and send regular updates on the progress of the estate. Aim for a weekly summary so your siblings and relatives know what to expect. Even if there has been nothing that has changed since your last communication, send a notice letting everyone know nothing has changed. Again, err on the side of providing too many updates/information. The heirs to the estate often have no idea what is going on. This lack of knowledge can create tension and uncertainty. It's better to let them know precisely what's happening at each step in the process.

**A LITTLE KNOWN BUT IMPORTANT TYPE OF INSURANCE**

If you are the executor of a large estate and/or think one or more beneficiaries will dispute your decisions and handling of the estate, consider purchasing trustee errors and omissions liability insurance to protect yourself from claims against you.

Second, a common cause of sibling disputes occurs when someone takes sentimental items from the parent's house. For example, I've seen situations where heirs have taken fine china, sterling silver flatware, paintings, and other items. Sometimes, these items have significant financial value, but they almost always have significant emotional value. You want to prevent anyone from taking anything at this early stage. As the executor/trustee, send out a message to the family members, asking if there are specific items they would like. Often, there will be items that hold sentimental value for one person but not another. If multiple people want the same item, have them work out an acceptable resolution – maybe they can trade one item for another. The goal is to create a process for requesting items and resolving disputes instead of a free for all.

Another area of contention is when one person feels they are not getting their fair value of assets. For example, if one sister has an emotional connection to the fine china and sterling silver flatware, both valued at $25,000, but the brother only wants a .22 caliber rifle, valued at $250, this is not equitable. In this situation, there would need to be additional assets or cash to compensate the brother.

Ideally, the parents would have had a conversation with the family and earmarked certain items in the Will or trust, but if this wasn't done, then do your best to create a fair and equitable system that everyone understands rather than one where it appears you are playing favorites.

### *Q–What is the best way to divide illiquid assets between heirs?*

A—The easiest estates to divide are those consisting of cash, stocks, bonds, and mutual funds because you can simply divide the holdings into equal shares. However, most estates are not this straightforward. Often, there will be multiple heirs and illiquid assets such as a house, raw land, apartment building, or even a business that needs to be divided. It's easy to divide a $2 million investment account three ways, but how do you divide a commercial rental property?

If you have a unanimous agreement, it may make the most sense to sell the asset and divide the proceeds. This is especially true if there are several heirs and if the asset, such as real estate, is out of state. If everyone agrees, it becomes an easy solution.

However, often, not everyone agrees on what should be done. For example, what do you do if the family has a vacation property with high emotional value that one of the heirs doesn't want to sell? Or, what if two siblings want to sell a property but the third doesn't? If there are significant assets, it may be possible to trade assets, where some heirs receive cash and others receive illiquid assets. For example, the heir who wants to keep the vacation property may be able to "buy out" the other two heirs by taking less cash as an inheritance.

Again, it's best to get everyone on the same page. Explore various options with the heirs and see if you have a consensus. Even if you don't, you can see how close you are to a resolution rather than unilaterally making decisions that may not be desired by anyone.

Overseeing an estate and dividing assets can be challenging. Work closely with your advisors and get their ideas and input on how to best present the options. Also, consider holding a family retreat to update the heirs on the estate and to go through the various options. These day long or multi-day retreats with everyone in attendance can resolve issues that otherwise could have taken months to do via emails and conference calls. For larger and more complicated estates, these are incredibly valuable.

### *Q—If I don't need the inheritance, what are my options?*

A—If you already have a large estate and/or want to pass the estate on to other beneficiaries, you can consider disclaiming the asset(s). When you disclaim a gift or inheritance, you do not get to decide who gets it. Instead, it passes to the next beneficiary. Why not just accept the inheritance and then gift it to the next beneficiary in line? It's much easier and tax efficient to disclaim it and have it pass directly to the beneficiary.

There are specific IRS rules you must follow to disclaim an inheritance, including putting the disclaimer in writing, completing the disclaimer within nine months of the death of the person leaving the property, and making sure you have not received any benefit from the property you are disclaiming.

Instead of blindly accepting the inheritance, work with your advisors to see if it makes more sense to disclaim the assets.

### *Q—Won't I pay a lot of tax if I receive an inheritance?*

A—Generally speaking, the beneficiaries will pay very little, if any, income tax on an inheritance. However, the estate may pay estate tax, which would decrease the amount of inheritance that is ultimately transferred to the heirs. Also, there may be a small amount of tax on income for which the decedent never paid income tax.

**WATCH OUT FOR THE 50% TAX!**

If you inherit an IRA and don't take the required minimum distribution set by the IRS, you will be subject to a penalty equal to 50% of the amount you should have withdrawn. Don't let this technicality cost you thousands of dollars in unnecessary fees. Work with your financial advisor and CPA to make sure you are withdrawing at least the minimum amount each year.

Another tax advantage of receiving an inheritance is the step-up basis rule, which minimizes and often eliminates capital gains tax. Capital gains tax is a tax assessed on an asset that you sell for more than you originally purchased it for. For example, if your mom sold the house she bought for $100,000 30 years ago fo3r $million today, she would have a gain of $2.9 million ($3 million sales price – $100,000 basis). However, if you inherited the house, the IRS lets you "step-up" the basis amount to the value of the asset on the day she died. In this case, if she died when it was worth $3 million, your basis is stepped-up to the $3 million instead of the $100,000 amount. If you were to then immediately sell it for $3 million, you'd have no taxable gain. The step-up basis rule can save millions of dollars of capital gains tax. Work with your advisors to make sure you are taking full advantage of this benefit.

**NEED MORE HELP OR INFORMATION?**

Are you anticipating an inheritance in an amount that is making you uneasy or are you feeling pressure because of the responsibility and are not sure what to do? We can help. We are known nationally for our expertise in working with inheritors and have developed a national network of experts from different law, accounting, and financial firms. We can point you in the right direction to help you get back in control and feeling confident and secure. Go to suddenwealthsolution.com for more information and up-to-date strategies on managing your inheritance and to learn about our online wealth prep course.

# FINAL THOUGHTS

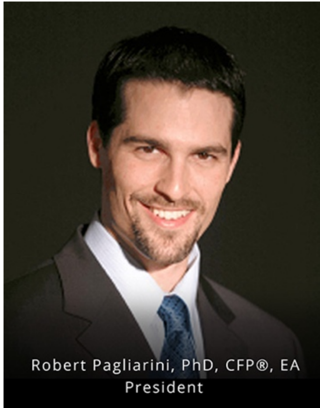
I have been honored to work with sudden wealth recipients for nearly two decades, and although each client and situation is different, the 12 Sudden Wealth Principles provide the foundation for my work. They have worked for me and my clients over the years, and I am confident they will help you create more peace, comfort, happiness, and a lifetime of financial security.

Although these principles are the basis of my work with clients, they are simply the starting point; there is much more that is required. This is why it is so important to work with the best advisors you can find. These 12 Sudden Wealth Principles are the beginning, not the end.

Sudden wealth planning is a constantly evolving field. Although the 12 Sudden Wealth Principles are what exist today, they are not carved in stone. They will, and should, adapt as we learn more about human psychology, behavioral finance, and decision making. Every new sudden wealth recipient is an opportunity to test these principles and to refine the strategies.

I've found that it is one thing to read a book and something quite different to implement the strategies recommended. If, after reading this book, you have a good handle on what you need to do, my mission will be accomplished. If you have additional questions or need help making the ideas in this book work for you, please do not hesitate to contact me. People are often surprised when I personally respond to an email or phone call. I do what I do because I love it. I love helping clients who are going through one of the most exciting and nerve-wracking events in their lives. I'm happy to answer question or point you in the right direction. Contact me at robert@pacificawealth.com or 949-305-0500 and share your sudden wealth questions, successes, and challenges – what's worked and what needs to be improved. Together, we can continue to refine this field and ensure that anyone who comes into a windfall has the best tools and strategies to make the most of their opportunity.

# ABOUT THE AUTHOR


Robert Pagliarini, PhD, CFP®, EA
President

Hello. My name is Robert Pagliarini. I have a financial planning and investment management firm that focuses on retirement planning and working with clients faced with significant financial transitions such as retirement, the sale of a business, inheritance, stock options, and other sudden wealth events.

I have a PhD in financial and retirement planning. Additionally, I am a Certified Financial Planner™ practitioner, a Certified Divorce Financial Analyst, a Certified Structured Settlement Consultant, an Enrolled Agent* with the IRS, and have a Master's Degree in Psychology. I've written four personal finance books and write a column for Forbes.

## ALWAYS LEARNING

Sudden wealth is an area with always-changing tax, legal, and financial issues. I've made it my mission to become a life-long learner and student, sometimes to the dismay of my family. I have several photos of me on my honeymoon lounging poolside reading a thick book on wealth management. When on a non-profit trip to Myanmar, I studied on the plane for the IRS Enrolled Agent exam. When on vacation in Europe with my wife, I was caught highlighting a journal column on the taxation of lawsuit damages. I have a large purple folder marked "To Read," filled with columns and papers on investing, taxes, estate planning and a myriad of financial topics. I bring this folder nearly everywhere, because I'm dedicated to always learning for myself, and the benefits I can pass onto my clients.

I love to learn, and I think it is a necessity if you want to provide the best advice and current strategies to clients. This probably explains all of the letters after my name. I am a Certified Financial Planner™ practitioner, a Certified Divorce Financial Analyst, a Certified Structured Settlement Consultant, an Enrolled Agent with the IRS, and have a Master's Degree in Financial Services. I earned a PhD in financial and retirement planning from The American College where I studied and conducted research on retirement income distribution planning, behavioral finance, and investment strategy.

## PSYCHOLOGY OF MONEY

Although I've spent a great deal of time learning the financial, tax, and legal aspects of sudden wealth, I would be doing my clients a huge disservice if I stopped there. I tell my clients that successfully managing sudden wealth is often less, at least initially, about managing the money and more about managing emotions and relationships. The sad riches-to-rags tales you hear

are rarely from a single bad investment or from paying too much tax. The real cause is how money changes us and how it changes those around us. Although I'm a financial advisor, I learned quickly that if I was going to really help my clients, I needed to understand the psychology of money, motivation, emotions, and relationships. To that end, I went back to school and earned a Master's Degree in Psychology with an emphasis in marriage and family therapy. This program required I conduct hundreds of hours of face-to-face counseling. To better connect with clients, I've graduated from business and personal coaching programs as well as workshops in Solution Focused Therapy and others. My goal is not to be a therapist for my clients. My goal is to better understand what drives them and to help them make the best financial decisions they can.

## LOVE OF TEACHING

I've written four personal finance books. My first was the #1 bestselling *The Six-Day Financial Makeover: Transform Your Financial Life in Less Than a Week* (St. Martin's Press, 2006). I wrote this as a general guide for anyone who wasn't quite sure what they should be doing with their finances. Although the book is almost a decade old, the advice is still as relevant today as it was when I wrote it. My second book was *The Other 8 Hours: Maximize Your Free Time to Create New Wealth & Purpose* (St. Martin's Press, 2010). This book was a departure from traditional personal financial advice and was more focused on investing your human capital rather than investment capital. My most recent book is called *The Sudden Wealth Solution: 12 Principles to Transform Sudden Wealth Into Lasting Wealth* (Harbinger Press, 2015). This book focuses on the financial, emotional, and relational issues surrounding sudden wealth. My most recent book is *Get Money Smart: Simple Lessons to Kickstart Your Financial Confidence & Growth Your Wealth* (Harbinger Press, 2018). This book provides concise and easy to understand personal finance lessons with humor and stick figures.

I think books are a great medium for providing timeless advice, but rules and laws can change very quickly. If you want to read my latest thinking, I write financial columns for CBS, Forbes, BusinessInsider, AOL, HuffingtonPost, Tribune Media, and others.

## DADDY ON TV

Over the years, I've had the privilege of appearing on Dr. Phil, 20/20, Good Morning America, Fox Business, Katie Couric, and many others. I always have a good time on these shows, and my daughter gets a kick out of seeing Daddy on TV.

## MANY ADVENTURES

Traveling around South East Asia over the past several years ignited the adventurer in me. A couple of times a year, I travel to exotic places around the world. I've climbed Mt. Kilimanjaro, hiked the Inca Trail to Machu Picchu, hang-glided in Brazil, ice-climbed in Colorado, camped at the bottom of the Grand Canyon, mountain biked in Burma, trekked to the Great Wall of China, explored the jungles of Thailand and Malaysia, and completed an Ironman with clients (yes, they beat me but I was just happy to finish!). Not all clients are interested in these trips, but they are always welcome.

## MY WEALTH MANAGEMENT FIRM

We are experienced independent investment managers who get up each morning with the unwavering mission to help our clients make more money through low-cost investing, reduce the taxes they pay, and implement comprehensive and creative financial strategies tailored to meet their needs.

We are honored that our clients put their trust in us to help them create a better future. **We are passionate about always doing what is right, honest, and ethical for our clients – putting their needs above all others.** And we never forget that we are here for our clients and because of our clients.

Nationally-recognized financial expert Robert Pagliarini, PhD, CFP, EA has been seen on:

The preceding eBook includes excerpts from:

## THE SUDDEN WEALTH SOLUTION
## 12 PRINCIPLES TO TRANSFORM SUDDEN WEALTH INTO LASTING WEALTH

If you enjoy the lessons covered and would like to learn more, visit:

**SUDDENWEALTHSOLUTION.COM**

## NOTE TO THE READER

This book is intended to provide general guidelines that are for informational purposes only and is sold with the understanding that the publisher and author are not engaged in rendering professional services or in providing specific investment advice. The application of general guidelines involving regulatory, accounting, and legal practices, which may differ from locality to locality and which are constantly changing, is highly dependent on an evaluation of individual facts and specific circumstances. With regard to any decisions that can potentially have significant financial, legal, tax, or other consequences, no book can take the place of individualized professional advice. Readers should not regard this book as a substitute for consulting with a competent lawyer, accountant, or other financial professional, as appropriate to the nature of their particular situation. Different types of investments involve varying degrees of risk and there can be no assurance that the future performance of any specific investment, investment strategy, or product discussed in this book will be profitable or suitable for any one reader's portfolio. If readers have any questions regarding the applicability of any investment strategy or product discussed in this book to their particular financial situation, they should consult with a professional advisor.