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Editor's Letter

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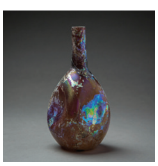
On the Cover



Roman Purple Glass Flask
Glass
4th Century AD–5th Century AD
6.5 inches (16.5cm) high
Photo credit: Barakat Gallery

Rome's emergence as the dominant political, military, and economic power in the Mediterranean world was a major factor in attracting skilled craftsmen who set up workshops in the city. Equally important was the establishment of the Roman industry roughly coinciding with the invention of glassblowing. This invention revolutionized ancient glass production, putting it on par with the other major industries, such as pottery and metalwares. The Roman glass industry owed a great deal to eastern Mediterranean glassmakers, who first developed the skills and techniques that made glass so popular that it can be found on every archaeological site today, not only throughout the Roman empire but also extending into lands outside of Roman territory. This piece has darker aubergine colored swirls, a cylindrical neck with cut-off mouth, a pear-shaped body with four large indentations, and the neck cut down in antiquity, with an overall lilac iridescent patina.
This piece and other antiquities are available through Barakat Gallery in Los Angeles, California and abroad. Visit www.barakatgallery.com to view more fine works.

Before dealing with the last installment in the cycle of four letters commemorating the 20th anniversary of *The Journal of Wealth Management*, I must share with our readers a piece of sad news. Frequent contributor and member of the Advisory Board, Greg N. Gregoriou passed away on November 20 after a three-year battle with a wretched cancer. He was both a great author and a useful resource for us, but he was also a dear friend. He will be missed by all, and our sympathy goes out to his family, particularly to his mother. May he rest in peace.

After having dealt with tax-aware asset management, asset allocation, and the role of alternative investment strategies, it is time to bring it all together. Our focus here will be on the need to look at the wealth management challenge as a multidisciplinary process and on the role that family education plays in that process.

One of the most crucial insights that eventually created the private wealth management industry is that investment management is not and should not be the central focus taken out of its more general context. Though she would be upset if we did not acknowledge the fact that several people have made the point in one way or another, Ambassador Board member Charlotte Beyer coined a very useful phrase based on an interesting analogy. She depicted the leader of a wealthy family as the chief executive officer (CEO) of "My Wealth, Inc." and illustrated the fact that he or she must deal with a wide multiplicity of disciplines to be viewed as successful (financial planning, cash planning, tax planning, investment planning and asset management, philanthropic work, risk management, family education, and bill payments, to name only the most important). Sara Hamilton, also a member of our Ambassador Board, sponsored a study that focused on risk and was the first to describe risk as something that went quite a bit beyond the simple volatility of returns, or, in the more recent phraseology of goals-based wealth management, the probability of failing to achieve one or several goals. Although this may appear almost intuitive to many today, note how far we are from the concept that prevailed in many investment management organizations 25 years ago, when they often viewed the private bank part of their activities as a distribution channel!

In many ways, the very fact that one began to consider tax awareness as an important element of the asset management puzzle illustrated the multidisciplinary nature of managing assets for individuals. This was the initial insertion of a new dimension into a problem that had hitherto been solely viewed through a tax-oblivious lens. The recognition that there were significant interactions between asset management and charitable planning—effectively adding a third dimension—took us a step further. Eventually, the need to look at all the divisions of

Charlotte's My Wealth, Inc. inevitably brought us to the point at which everything is related to everything else. Humbly borrowing Charlotte's analogy, I illustrated it through the various divisions of a real business to make the point that any CEO who would choose to ignore one or several of the key corporate disciplines was doomed to failure (I considered strategic planning, human resources, finance, engineering, manufacturing, legal and regulatory management, marketing, sales, and several others, too).

The next iteration in this process involved the work of several authors—unfortunately too many to cite everyone—who showed the need to begin to talk of these various dimensions of wealth management to family members, including younger ones, to illustrate for them the complexity of the task and avoid having them conquered by the siren's songs. They are indeed all bombarded daily by marketing pitches from individuals and firms that operate in one or another silo, without really understanding how each distinct activity is related to others. As is often the case, these songs can initially, and superficially, appear to make sense. Many of these firms have excellent marketing departments; people who lack a solid understanding of the real issues or a good perspective of what is possible and what should not be possible can easily be swayed and eventually convinced. Yet, when the problem is analyzed in more depth, it becomes painfully obvious that any decision that is not made within a broader context is doomed to failure. How many families found themselves with negative investment value added when taxes were taken into consideration? How many families found themselves paying more in estate duties than they should? How many families paid too much for the philanthropic good they were doing because they did not link philanthropy to other dimensions of the wealth management process? How many families eventually experienced what Jay Hughes quotes as "shirtsleeves to shirtsleeves in three generations" (affirming in the process that comparable phrases exist in most languages and cultures)?

Family education holds the key to avoiding many if not all of these mistakes, but it is a very tough nut to crack. There are many reasons behind such a statement. The breadth of the issues that need to be considered is only the most obvious one. Subtler is the fact that there are perfectly understandable fears of the consequences of bringing family members into the loop before they are ready. A desire to avoid the conflicts that at times develop is also quite an understandable concern. Yet, several firms have developed processes that tackle the challenge in very innovative ways. This ranges from *money camps*, where the basic elements of money are taught to kindergarteners in the three dimensions of spending, saving, and giving, to formal classes—including classes conducted within the four walls of universities—where selected principles are taught to teenagers and young adults.

Recognizing that individuals each must play different roles, in part owing to their position in the family, is also an essential element of the transition from an environment in which the wealth creator makes all decisions and is responsible for most everything to one in which successors are coached. Teaching future generations that their roles involve stewarding family values from one generation to the next represents a major challenge, as is the need to ensure that the older generations understand the need for their children and grandchildren to be allowed to create and deal with their own dreams rather than simply achieving the dreams of their elders. Imagine how subtle such a transition must be: One wants values to perdure through time, but one also wants future generations to be free to add to the list or vary that list, provided they do not go directly against the essence of it. Jay Hughes used a yin and yang analogy to make that point, which I have found quite perceptive.

Looking to the future, one of the most difficult challenges will be twofold.

1. First, it will likely revolve around the fact that families are becoming multinationals. As technology has made the world seem smaller, multinational, multicultural, and multireligion marriages are becoming much more frequent. They bring with them a series of problems, ranging from the difficulty of dealing with conflicting jurisdictional legal and regulatory principles as well as tax principles—a series of problems that must be solved with the help of specialists—to the more qualitative issues of molding values and behavior patterns around different cultural or religious axes.

2. The second challenge is equally daunting because it is related to privacy and associated issues in a world where one is never quite sure that all relevant family information is protected. A cybersecurity consultant once explained to a family we are honored to serve that applications that allow them to start their cars from their smartphones may be the door through which family secrets can be pirated. Helping individuals understand that the many opportunities offered by today's technology should be enjoyed with a dose of caution can be difficult because so many of these activities have become second nature to the people born in the late 1970s and afterward.

I do not want to conclude on a possible downer. An honest look at the history of the last 25 years does illustrate that, in our field as in many others, human ingenuity has been allowed to identify, address, and effectively solve many of the problems that may at some point have been thought too complicated. I have no doubt that the challenges that we collectively face today are no more daunting than those we encountered in the past and, thus, that solutions will be found. In short, the real wisdom in here is simply to recall that one cannot solve a problem without recognizing that it exists and that the ultimate form of silliness is to keep doing the same thing, all the while expecting different outcomes.

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The Spring 2019 issue of *The Journal of Wealth Management* allows us to group articles into three different categories reflecting general investment issues, equity market considerations, and two important other pieces covering real estate and blockchain technology.

The first three articles cover general portfolios issues. The first, by Nathan Sosner, Stanley Krasner, and Ted Pyne, addresses tax efficiency, proposing a methodology to identify the source of tax benefits resulting from relaxation of the long-only constraint and showing tax-aware relaxed-constraint strategies are more attractive to taxable investors than their long-only counterparts. The second, by Valeriy Zakamulin, is particularly timely in the current capital market environment in that it proposes a modified volatility weighting strategy that allows one to reduce dramatically the amount of trading costs. The third, by Debarshi Basu, Michael Gates, Vishal Karir, and Andrew Ang, presents a framework for designing optimal model portfolios, demonstrating the construction of model portfolios for multi-asset-class and factor-investing applications.

Our next group of articles deals with equity market issues. The first, quite relevant at a time when technologically enhanced tools are becoming commonplace, is by Angelo Corelli and applies a mixed analysis combining classic signals offered by technical indicators with the power of neural networks, using the Italian market as a case study. The second, by Jędrzej Białkowski and Aynaz Nahavandi, provides evidence for the existence of a US midterm election effect that compounds to nearly 25% in those three quarters, even though that rule has so far not held with respect to the most recent election! The third, by Subhendu Kumar Pradhan and R. Kasilingam, focuses on five corporate actions (dividend announcement, stock split, bonus issue, right issues, buy-back, and right issue) and, based on the S&P BSE 500 index, proves that corporate actions are quite relevant to shareholders' wealth. The final article in this group, by Russell Robins and Geoffrey Smith, studies the so-called *holiday effect*, noting that, from 1926 to 2016, the average stock return on the day before holiday market closings is up to 15 times the average return on all the other days of the year. They find that the holiday effect is critically dependent on the sample period over which it is estimated and that there is no statistically consistent set of results in each subperiod.

As is often the case, our last three articles form a somewhat heterogeneous group. The first, by Alain Coën, Aurélie Desfleurs, and Patrick Lecomte, follows in the spirit of the piece published last quarter on commodities, studying an area of capital markets that has not attracted many comments in this journal. This article studies the performance of publicly traded real estate companies (real estate investment trusts and listed property companies) from 14 countries covering North America, Europe, and Asia as proxied by FTSE EPRA/NAREIT Global Real Estate Indexes over the period 2000 to 2015, before, during, and after the global financial crisis. They find that the crisis had a huge impact on

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the ranking of internationally listed real estate securities' relative performance. Our next piece is by Nasser Arshadi and looks at the application of blockchain technology to the wealth management industry. Our final piece is a short book review by Jean Brunel on *The Wealth of Wisdom: The Top 50 Questions Wealthy Families Ask*, by Tom McCullough and Keith Whitaker.

Jean L.P. Brunel
Editor