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What Is Generational Wealth?

According to Investopedia.com,¹

Wealth measures the value of all the assets of worth owned by a person, community, company, or country. Wealth is determined by taking the total market value of all physical and intangible assets owned, then subtracting all debts. Essentially, wealth is the accumulation of scarce resources. Specific people, organizations, and nations are said to be wealthy when they are able to accumulate many valuable resources or goods. Wealth can be contrasted to income in that wealth is a stock and income is a flow, and it can be seen in either absolute or relative terms.

Generational wealth is wealth that is passed down from one generation to the next through the accumulation of assets that provide financial security for the future. Generational

¹ 'Understanding Wealth: How Is It Defined and Measured?' Investopedia (10 July 2022), accessed 12 October 2022, <https://www.investopedia.com/terms/w/wealth.asp>.

wealth is also called family wealth, multigenerational wealth, or legacy wealth—it's wealth that is passed down from one generation to the next, and it can take many forms, such as heirlooms, traditions, good genes, and a good name. Generally it's thought of as financial wealth, but it is also about preserving your family name. Generational wealth builds a legacy, and building generational wealth takes many lifetimes. If someone should ask you your great-grandfather's name, would you know it? If not, it might be because he did not build any name or legacy to pass on to his generations. To build generational wealth is to build on the financial success of past generations, consciously erasing the poverty mindset and replacing it with the financial education enjoyed by the wealthy elite.

There are four principles of generational wealth:

1. **legacy**, passing on money, knowledge, family missions and values, and traditions
2. **leadership**, the family council as a source of learning, growing, serving, and nurturing
3. **financial wealth**, a foundation of family funds, savings, protection (insurances), and positive money habits.
4. **family lending**, borrowing from the foundation for opportunities and investing in human capital and replenishing it.

Generational wealth is built by acquiring stable assets over generations. The first generation typically works hard to build assets for the second generation to manage, build on, enjoy, and then pass down to their children, who will

be the third generation. And so the process goes. Anybody can become rich, but staying rich is the problem. In reality, only a few are able to build generational wealth. These are the people who are hardworking and know the value of money, the people who save, invest, and grow their money instead of spending it, and who have the well-being of their generations at heart.

To succeed at creating generational wealth, you have to teach all the skills you learned to your children. Groom your children for financial success, advise them as necessary, and give them directions along the way. If you don't, be assured that whoever inherits your wealth will blow through it and break the chain of wealth creation.

Build Wealth, Build Your Name

Hilton, Ferrari, Lamborghini, Ford, Chevrolet, Benz, Versace, Louis Vuitton, Balenciaga, Bosch, Dell, Hewlett-Packard, Harley Davidson, Guinness, Harrods, Marriott, Rolls Royce, Kellogg, McDonalds, Forbes, Fendi, Guicci, the Ritz Carlton ... all these companies were started by an individual and built with the family name.

Many businesses survive through time. One person's brain child can become a business that survives for generations, if it is structured in such a way. Everything about the companies above is someone's legacy. The family name becomes the brand and the business—yes, the last name of the family. What would your last name sound like as a brand? Can you start something that your generations can feel involved in and carry the torch forever?

If you build a good brand name, the only requirement

is to keep innovating. Teach your children how to make, grow, and maintain wealth. Make your children part of the company. Mentor your kids to take over your business and build it even bigger than you did. If your children don't start well and do well, then you have failed big time. You are the mentor and the teacher; guide them well, and they will be inspired by your journey.

Marry well, because if you have to divorce at a certain point, you or your children could say goodbye to the wealth that took you years to build.

To build generational wealth, you need to distinguish between personal and family wealth. Personal wealth is for one person and mostly comes in the form of cash assets, which are liquid or can be liquidated quickly, such as money in a bank account or stocks and shares of products. Family wealth is more illiquid and cannot be easily converted to cash, or further steps would be needed to change it to cash. Because of the nature of family wealth, the assets tend to be preserved for generations and are less likely to be blown through.

Build businesses, and expand them as time goes on. Building businesses will make you money now, and even when you are dead and gone, your name will continue to make money. Don't just do jobs that make you miserable—fulfil your purpose.

Here are some practical ways to build wealth.

Stocks. If you want your investment money to grow, buy stocks and shares through indexes such as the S&P 500, FTSE 100, and FTSE 250. Over time and with the help of compound interest, your money will grow exponentially. Statistically, the FTSE and S&P consistently have annual

increases of 6–10 percent. You can invest through financial services companies such as Hargreaves Lansdown, Vanguard, or Fidelity. With these types of investments, you buy and hold for a longer term. Even if you need money short-term, do not withdraw or sell your holdings. Just leave them to compound and accumulate. Never sell an asset—I repeat, never sell an investment asset. Find money on the side to cover whatever you need.

Property. Buy land so you can keep it forever. Population is increasing, and demand for space is shooting up. Cash-flow properties include apartments and commercial properties, which you buy, hold, and wait as prices increase. Rental income is passive income that will always feed your family.

Precious metals and art. You can also buy and hold precious metals as a way of building generational wealth. If necessary, these assets can be pawned rather than borrowed against. Buy and hold artwork. There is value in collectibles, and the value of art has stood the test of time.

Taxes and interest. Never stop earning, but minimise your taxes. Be 100 percent legal, but find ways to reduce your tax. Tap into the power of compound interest; it is the main key to wealth building. Compound wealth *and* knowledge—the more you know, the better decisions you will make.

Trusts and wills. You can set up trusts to protect your wealth. A trust is a legal arrangement that protects, manages, and distributes wealth according to your instructions. Write your will. Everybody will die one day, and your wishes need to be protected. A will makes sure your wealth ends up in good hands.

That's how you build wealth—and generational wealth.

Why Build Generational Wealth?

Inherited wealth may be something easily squandered, but inherited poverty is a legacy almost impossible to lose.

Eric L. Haney

A good man leaves an inheritance to his children's children.

Proverbs 13:22

Nobody wants to live with poverty or to see their family struggling to make ends meet. Sadly, a lot of families do live with poverty from one generation to the next, so people should want to build assets that last to see their generations through life's challenges. People who are indebted often go through periods of stress, sickness, and disease, and these issues can even be passed down to future generations. So instead of generational blessings, that family will have generational curses—all because of poverty.

Obviously, people who inherit wealth from previous generations have advantages over others. For example, students who don't need to borrow money for tuition fees and student accommodations will not start life overwhelmed with debt. With generational wealth comes the ability to avoid student loans as well as other debts that could cost young people their livelihoods. Instead of debts, they are able to invest their inheritance into other income-generating assets, which will constantly appreciate in value to pay for their lifestyle and even their first home.

The challenge here is maintaining these assets over time and across generations. Seventy percent of families lose their wealth in the second generation. Building wealth requires more than knowledge. It entails hard work, discipline, sacrifice, and