



## **The New Family Office: Affordable Wealth Management**

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A family office is defined as a private company that oversees the fiscal well-being of a single family. As a business run by and for a single family, the family office operates by centralizing the management of a single family's finances. This generally includes a wide array of various tasks. Chiefly included among these is property management, direction of family investments and trusts, and philanthropy coordination. Also sometimes assumed by the family office is the management of any household staff, arrangement of travel, direction of the family's legal affairs, and any daily accounting activities.

Traditionally, only wealthy families, who may have a sizeable household staff or require a business operation to monitor their fortune, run family offices. This is due, in part, to the traditionally exorbitant cost involved in running a family business. Such operations are generally considered to cost upwards of one million dollars to set up and run.

However, this is no longer the case. Modern family offices serve a variety of functions outside of the institution's traditional scope. As such, they are increasingly being used by families who may not be exceptionally wealthy. Today, outside services are capable of managing a family office business for a lower average expenditure than private family offices traditionally cost.

### **The Modern Family Office**

For years, family office operations were open only to those with liquid assets of \$10 million or more, which meant that the vast majority of practitioners actually had total assets in the range of \$500 million. Now, however, there are a number of family options, making it an increasingly viable option for families besides the ultra-wealthy. There are three primary classes of contemporary family offices. These categories encompass the spectrum of potential needs that a family office might fill, both for affluent families and for ordinary Americans.

First and foremost, there is the traditional 'Class C' family office, which is operated by the family with the assistance of a small staff. As previously discussed, these institutions are set up to serve the direct needs of the family, including monitoring family finances and providing basic administrative functions.

The second category of family offices, 'Class B,' is a bit different. These institutions, instead of being managed by a member of the family, are operated by an outside service provider, such as a bank, law firm, or accounting firm. For a fee, 'Class B' offices will offer investment advice and provide services outside the scope of the traditional family office. Outsourcing the family office to an institution such as this allows families access to additional services and can be a more affordable option.

The final category is the 'Class A' family office, which is operated by an independent service provider under the direct jurisdiction of a family member, trustee, or administrator. These offices typically exist to provide financial administrative services. Those independent companies who operate 'Class A' family offices will offer comprehensive financial oversight over all liquid family assets, as well as daily management of assets.

Typically these independent companies will just charge a single flat fee for their services. Hiring an independent company to manage the family finances, instead of hiring a private staff to handle such affairs, is one of the best methods of gaining access to these elite services without having family assets in excess of \$500 million.

However, the most notable new family office operation currently in use is the multifamily office. The elite nature of traditional family offices is changing with the advent of these multifamily operations. These organizations offer the same services as traditional family offices – staffed by wealth managers, accountants, and lawyers. They will file the family taxes, set up trusts, organize charities, and manage property – but for multiple families instead of one. With multifamily offices, several families will band together to split the \$1 million operating cost. In addition, many family office organizers have lowered the minimum investment rate, making it possible for more families and individual private investors to consider the advantages of establishing a family office operation.

### **Benefits of a Family Office**

There are many notable benefits to establishing a family office to manage the family finances. Such operations provide families or wealthy private investors with comprehensive, personalized financial services. Participants, especially those who choose to join a multifamily office, have access to a vast array of integrated services, often not available elsewhere.

Family offices also give participants the reassurance that their finances are well cared for and are held in confidence, especially since these operations permit families to have substantial control over such matters. It is highly unlikely that any other operation would provide participants with such direct involvement with their own financial matters. Similarly, family offices are highly personalized, even when it is actually a multifamily operation or is provided by an outside service. The financial services offered are catered specifically to the needs of the family, and may change and grow as the family's needs change.

### **In Summary**

A family office operation can be an excellent means of exerting control over your finances and ensuring you receive a high standard of personalized care. While originally only operated by families with wealth in excess of \$500 million, changing practices have opened up this service to other individual investors and families so that they can benefit with a net asset value as low as \$2 million. In summary:

- Family offices have changed significantly, opening up their services to less wealthy families and providing a wider variety of services.
- Multifamily operations are an excellent means of receiving the same level of highly personalized financial oversight, as is available with traditional family offices, without the prohibitively high costs.
- Family offices provide families with a number of valuable advantages, including personalized, varied financial services. Families can also maintain significant involvement in the management of their affairs and feel confident that their finances are secure.

A family office operation provides financial security, personalized care, and the assurance that your finances are being handled exactly as you desire. If you are considering establishing your own family office operation, it is beneficial to consult with a professional in the field. An outsourced CFO services firm can either advise you on how to establish your own single or multifamily operation, or even establish one on your behalf.

### **Sources and Further Reading**

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