

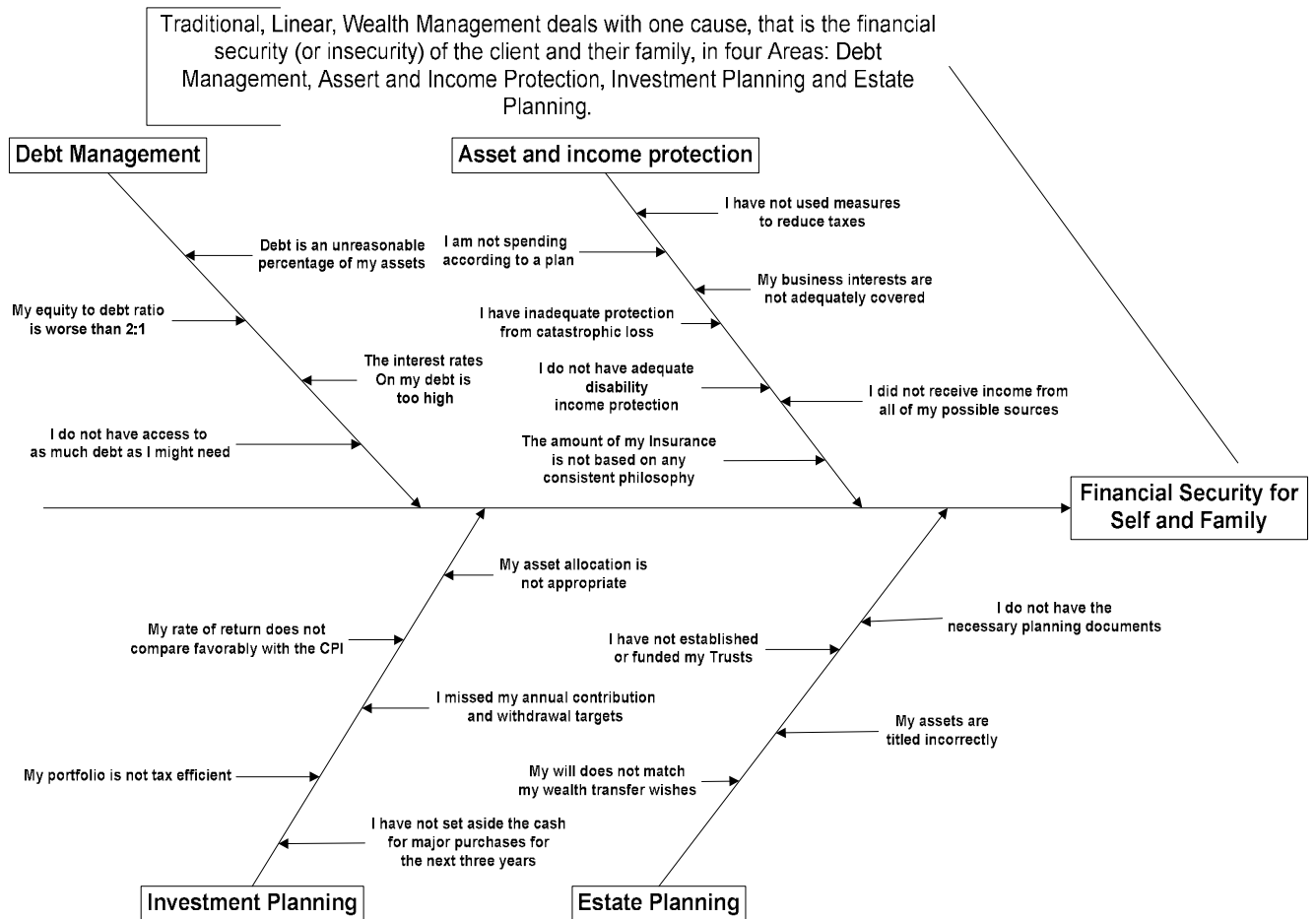
## Evaluation of the Success of an Estate Plan

At the Family Office Metrics (FOM) Op Tech convention last September, Paul McKibbin, a principal of FOM, presented some excellent tools that his firm uses to evaluate the success of business strategies, operations, technology integration, and other quantifiable elements of family office type services routinely provided by advisors to very high net worth clients.

However, when I spoke with Paul afterwards, it became apparent that while estate planning for very high net worth clients has had a dramatic impact on family offices, and the advisors who serve them, there are no known metrics to evaluate their success, or failure.

There is a way of establishing such metrics, but it requires 1) understanding the strengths and weaknesses of estate planning and 2) becoming familiar with Scenario Planning.

Traditional, forecast-based estate planning is, at its essential core, a linear process. It assumes the most probable future, based on forecasting through the linear extrapolation of quantifiable data, as well as a sophisticated way of handling short-term and tactical issues. Projecting beyond the immediate, tactical, future quickly becomes futile because of the inherent uncertainties of the risks that exist (such as taxes, recession, death and disaster). Such linear forecasts are excellent at highlighting the most likely, and so foreseeable, risks, but often "blind" clients and advisors to the less likely, but still possible risks and opportunities that will occur in such a complex situation. This willing blindness has been explored at some length in terms of business management by Nassim Nicholas Taleb in his book "The Black Swan".



To evaluate the success of an Estate Plan in the long run requires going through a “dry run” using a different technique, Scenario Planning. Scenario planning is a popular form of strategic planning that explores possible futures for a family or business, based on a combination of known factors and potential trends. It is frequently used with other tools in the formation of planning strategy. It works by sketching out a small number of stories about how the future may unfold, which gives you a clearer picture of the decisions you must make today to prepare for these eventualities.

Scenario-based planning is not linear planning; rather it is a medium (10 years) and long (50+ year) forecasting tool to reduce uncertainties to a manageable level while not concealing the risks. It opens up divergent thinking and reduces complexity while

avoiding oversimplification. It also provides the format of a common language and view to help bridge the communications gap between one generation and the next.

Scenario planning does not replace forecast-based estate planning or visions for the owners of a family business, art collection or legacy real estate, but rather is used when forecasting and vision are unable to handle the level of complex uncertainty that is usually associated with a nonlinear or disruptive event that will require an integration of the future planning into day-to-day events.

I use a framework for thinking about the future that is based on the “observe-orient-act” principal, and has been future defined in the terms **Tracking, Analysis, Imaging, Deciding, Acting or TAIDA**.

- **Tracking**- Keep from being Blinded by the Light: Our instinct is to “look where the light is shining” rather than observe all that is going on. The result is that we lose track of risks, so a deliberate effort needs to be made to track as widely as possible all elements of news and thought, not just tax-related matters.
- **Analysis** – What is really happening? This is taking the data from tracking and trying to determine what the future consequences will be from the actions of the present, as well as a deeper digging into the creative and intuitive models and visions by repeatedly asking:
  - What is happening and what seems to be happening?
  - What are the necessary conditions for this to be reality?
  - How tenable is this model?
  - What are the points of strength and weakness?
- **Imaging**- Bringing Dreams to Life: More intuitive, to create not only an intellectual understanding, but also an emotional meaning to the Future. This

uses intuition, will, and relationship with the future as part of the imaging process. The key to success may be action, but the key to successful action is the imaging of that success when the action is taken.

- **Deciding** - Selection and Rejection: Decision is that moment between vision and action, between the concrete that can be tested and quantified, and the intangible which can only be envisioned. This is mostly taken by the client, and shows the difference between an entrepreneur (who can blend both the concrete and the desires), the dreamer (who has desires, but no ability to make them concrete) and the manager (who can create the concrete actions, but does not have the ability to create the desire).
- **Acting** - Presence and Learning: Learning, the art of integrating new information into old knowledge, requires a clear purpose to be more than just academic. Signals from both the outside world and the inside world of the family and the organization need to be considered in learning, but doing and acting control the learning process. The most efficient families and organizations are those that learn to foresee and act, and so be one step ahead, rather than react and expend energy on emergency situations. The key to this is to keep actions focused on a vision, so-called "centered actions".

For the advisor to VHNW clients, scenario planning is not a commonly used tool because:

- 1) There is uncertainty of conclusions as no one can say definitely "this is the future,"
- 2) It is complex, non-linear and counter-intuitive to the simpler, linear, and more intuitive style of the traditional specialized estate planners,

3) Since the goals have both qualitative as well as quantitative elements, the answers are "soft" and subjective, the results are not as easily measured by the linear "hard" results desired in the traditional quantitatively-based analytical culture, and

4) It is always customized for each client, so it tends to be both expensive and time consuming.

So, for the advisor looking for a way of evaluating whether their client's planning can handle not only the probable, linear, forecast extrapolated from existing trends, laws and economy, but also whether the planning can handle the possible large and significant outlier events (such as death, disability, economic crashes, and the like) scenario planning is the only way to test the system against any sort of useful metrics. Doing so is not a simple task, and requires a very non-linear view of the way the future can be predicted, but it builds a much more robust plan and operation, able to better handle risks and take advantage of opportunities, than traditional planning can by itself.