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**Family Wealth with James E. Hughes**

**Date:** November 19, 2009

**James E. Hughes:** Thank you Catherine. I'm absolutely delighted and hello to all of you who are listening.

**Catherine:** One of things in the introduction to *Family Wealth*, you describe a period in your life, your acting as a counselor and attorney to wealthy families helping them preserve their life and their wealth, and you have kind of a – I wouldn't say a "career crisis", but really a sense that you're not doing everything you could to help them. And you kind of go off and have this epiphany that is translated into these wonderful theories and practices that we're going to be talking about today, and maybe if you could describe that real transformation in your work.

**James E. Hughes:** Well, Catherine, thank you. You are being very kind. I slammed right into Carl Jung's midlife crisis in exactly the way that Dante Alighieri and his great poems, the beginning of the *Inferno* says that in midlife, he found himself in a dark wood with no place to go. And I was walking along happily, I thought paying a lot of attention, and one day in mid life, 49 years old, found myself in a very dark wood with no place to go.

And that was both a personal crisis and my own sense of lack of self-worth, as well as a personal crisis and professional crisis in the sense that I began to feel that what I was doing was doing harm. And so if you have those two things, I think coming together and converging, you may well find yourself in a dark wood.

**Catherine:** And so what happened?

**James E. Hughes:** Well, I guess probably almost everyone who is listening to this has seen *Forrest Gump*. And basically after I sat there in that wood and with some wonderful help from friends and people who loved me very much, I began to think that the answer to that problem was to start to read and to try to read all the things I could find that bore on the question of why families, over three generations, have this creative time, this time of stasis and time of dissipation, and why that suffering occurred and what I could do about it.

And so like *Forrest Gump*, where he ran, I read. And I'm very happy to say that I am just about at the end of that reading, a couple thousand books down the road.

And I'm about to turn around.

**Catherine:** One of the things you describe in your introduction is this expression of shirtsleeves to shirtsleeves in three generations, and literally finding that this is a global phenomenon in many, many cultures.

# *The Solari Report*

## *Building Wealth in Changing Times*



**James E. Hughes:** Yes. This particular proverb, the Chinese expresses “rice patty to rice patty in three generations”. And of course for those of us who have ever seen a person bent over pulling rice and water, it doesn’t feel good when you start, and you certainly would be happy to end up back there – and the Irish, clogs to clogs. Every culture on earth, Catherine, and I have been just about everywhere – not everywhere, but almost everywhere. I have run into this proverb in some form. It’s in the bible. It showed up in Peter’s Bernstein’s wonderful book about risk against the gods. It’s the human condition.

**Catherine:** Yeah, it’s almost like the insulation we experience in the financial world, as entropy that we experience in the family and in the family’s preservation of wealth.

**James E. Hughes:** It is, and it’s also like physics, for those who were interested that, in the sense that in this remarkable wonderful universe of energy, things materialize. A lot of Nobel Prizes will be won if people can figure out how. And then sadly, through that process of entropy, that process of friction, decay, however you like it, everything material eventually goes back to be energy.

And so these families are following that same universal truth of something being created, something being sort of an aesthetic state, and falling back to energy. The difference is that I think somehow when rocks become material and go back to being energy, I don’t think the same level of suffering is present.

**Catherine:** Right. Well, the question that you ask in the beginning of *Family Wealth* is – and let me just read it: “Can a family successfully preserve its wealth for more than 100 years or for at least four generations?” And you paused at a theory, and we have seven aspects to that theory. Let me just go through them with you. The first is: “Preservation of long-term family wealth is a question of human behavior.”

**James E. Hughes:** Yes. And let me say that as the years have gone by since that I wrote the book that you are quoting from, *Family Wealth: Keeping it in the Family*, I only feel more confirmed – I never believed something because I’m sure I’ll be surprised tomorrow, but I feel more and more confirmed that it is human behavior, and particularly the growth of the critical asset of a family in that is it’s a human being, and how they learn and grow that really matters, how they behave in a sense together.

**Catherine:** Then the second is: “Wealth preservation is a dynamic process of group activity or a governance. It must be successfully reenergized in each success of generations to overcome the threat of entropy.”

**James E. Hughes:** Yes. And the key word here is “dynamic”. One of the problems of all systems that I’ve encountered – human systems, is that when they begin, they are often a response to a problem, and we find a function, a way the group can function to resolve that



problem. Over time, they tend to become formed. And when something moves from function to form, it gets into terrible trouble because form must follow function.

So dynamic governance is a function, it's a dynamic function. It's a growing function. It keeps maturing and changing in the decision making process to meet the new challenges. As soon as it's just governance, it doesn't have that word "dynamic" before it, unfortunately, the process of decay and entropy is at work.

**Catherine:** Right. And it's interesting. So many families that I know don't even envision creating a kind of governance system or making the investment process exclusive together. In other words, there is a whole investment in the family as a risk management and investment unit that has gotten lost, literally.

**James E. Hughes:** Yes. And this is where we have broken away in identity, I think, from our sense of all of teachers, that family is the one place in which our individual identity has the greatest chance of being shared and the most secure place in most cases. Not all cases, but most cases. And what is family? Well, first Webster says it has to be two or more people. You can have a single-person household, but you cannot have a single-person family.

And so if it two or more persons, then, immediately, you have a joint decision making process. And I have said to many families over the years as an example, when you have a mother and the infant, an infant makes all the decisions.

And what is governance? Let's make it as simple as it actually is. Governance is simply a description of a joint decision making process. So if you have family and the purpose of the family is to try to exist beyond the proverb's prognostication of three generations, so human beings will continue to thrive, you have to make joint decisions. And that's what governance is. It is really just joint decision. I didn't say just in the sense of easy, I said that is what it is.

**Catherine:** And that is an intention, I think, that if families even just realize that they could help each other build wealth together, and that building wealth requires that kind of cooperation and families can be powerful at it, that's a very important realization and intention for a family to create together.

**James E. Hughes:** Yes. And that is a border, if not in a spiritual dimension. The Buddha said, and most of the great traditions have said, that all successful actions must be grounded first in right intentions. And right intention is that the deep sense that we have a common purpose, and the common purpose is to help each other achieve our highest capacity in this lifetime – and to seek to help each other. Without that intention, the proverb will simply prove itself true.

**Catherine:** You mean – not the Buddhist, the shirtsleeve?

# *The Solari Report*

## *Building Wealth in Changing Times*



**James E. Hughes:** You got it.

**Catherine:** The third aspect of the theory is one of my favorites: “The assets of this family are as individual members.”

**James E. Hughes:** Yes. And it is so strange to me that the illusion that a family is its financial capital is overwhelmingly common. Of course it is. What is a family? The family is/are – its individual members. But this illusion that it’s financial capital is entropic at the core.

**Catherine:** Yes. And you know Jay; this is something I struggle with my clients all the time. I have to keep saying, “You’re the asset, not your financial wealth.” In other words, the money, as you describe it, is a tool to support you and your highest purpose. And, obviously, we need the money to work and we want the money to grow. But you are the asset, not your money.

**James E. Hughes:** Yes. And another thing, Catherine, just to touch on this, one of the problems, often, and I mean very, very often, is that the emphasis in family is on the wealth creator, who becomes a hero, or heroine, almost heroic figure, when, in fact, the financial capital is simply the representation of successful living out of a dream. One of the great problems through second and third generation is that, cognitively, no one can ever dream another’s dream that we’re not given in our species.

So if we fail to perceive that creative of that was the dreaming, not the money, then we fail to understand what the hero’s, or heroine’s, journey actually was. And if we can understand that, and so we can see this family is about bringing to life each of our each of our dreams, as long as they don’t harm us or harm someone else, then we’re about to create a process that is generative.

**Catherine:** Right. And so the success of one dream then supports and encourages the success of many, and it’s that combination that makes the family powerful.

**James E. Hughes:** It is. And this is a tragedy of the commons in this field.

**Catherine:** Well, to me, Jay, it’s a tragedy not just in families that have built wealth, but also of the families who would like to build wealth and can’t.

**James E. Hughes:** It is. And if we concentrate on dreams, and we concentrate on the common purpose of seeking to help each other bring our dreams to life, and enhancing – in essence, enhancing each other’s journeys of happiness, we have a common purpose around which we can all make joint decisions.

# *The Solari Report*

## *Building Wealth in Changing Times*



**Catherine:** Well, we're talking now about the fourth aspect. Let me read it. "The wealth of a family consists of the human and intellectual capital of its members. A family's financial capital is a tool to support the growth of the family's human and intellectual capital."

**James E. Hughes:** Yes, who we are. As I said earlier in one of your questions, the family is the human beings that make it up. What are they? They are a combination of their interior gifts as human beings, their dreams, their physical selves, and what they know and can learn and share. That is the human journey. Finance capital is a function of the result of someone's dream, and it can be wonderfully helpful as a tool, no different than a hammer or a saw.

But if one says that is what I am, somebody else's dream, materialization, you will find yourself in Dante's dark wood.

**Catherine:** I'm always big on learning the wealth of the families or communities organizations. And you have some great stories in family wealth, like the story of the Rothschilds, the original patriarch, who got all of his sons to live in five different cities and write letters. It's a little bit like the British Empire. You write a letter once a month talking about what's going on in your place.

And it's that – the increased learning and the sharing combined with the intention, combined with the skills over long periods of times. So the trust and the confidence, that's what starts to compound and build the wealth, sort of greater than the rate of inflation.

**Catherine:** Right. One of the things, I know you mentioned the importance of going international, of the family speaking different languages, understanding what's going on in the different parts of the world through intimate experience. It's a very strategic way of thinking about building your family forward.

**James E. Hughes:** Well, it is, and, again, interestingly a question of transportation and communication. Putting yourself at risk within risk that's you understand or least mark many of them, and taking an adventure with the risks that you know you haven't fully understood, means using transportation and communication, whether it's through new language, through different vehicles – adventure, using my metaphor, is how we grow our human selves and our intellectual selves. All the great stories we love are really stories of adventure, aren't they, at some level.

**Catherine:** Yes, that's true.

**James E. Hughes:** Interior –are some interior journeys, some are exterior journeys. But the point is that we grow our human selves and our intellectual selves when we're prepared to take an adventure. And one of the things that I ask the families, the few now that I serve

# *The Solari Report*

## *Building Wealth in Changing Times*



since I'm retired, but I ask them – the 50 and 60-year-olds, not just the 15 and 20-year-olds, "Have you ever had an adventure?"

*Catherine:* And what did they say?

*James E. Hughes:* Many of them say no.

*Catherine:* Oh my word.

*James E. Hughes:* Because they were living/stewarding someone else's dream.

*Catherine:* Oh.

*James E. Hughes:* No one ever asked them, "Well, do you have a dream? Do you have an adventure to go on?" And so they are very sad people. They have lots of money. They have big houses. They live large lives. But when you ask them that question, like little children, very sophisticated people, they are very sad. And they say, "No, I never had one."

*Catherine:* It's never too late to have an adventure.

*James E. Hughes:* Never. And how do we know ourselves if we've never ventured.

*Catherine:* I know. Well, the last three aspects of the theory involve two things: shared values and governance. I've tried to do this and I don't want to be a hypocrite because I've had mixed results. How you persuade your family to get together and sort out what their shared values are and create a system of governance that could be a wealth-building process?

*James E. Hughes:* Well, if I know [the answer to] that question, I would be a happy man because I could help a lot more people, Catherine. But I'll offer a couple of thoughts. The one thing that we share in our – as a species in this form, the anthropologist and biologist tell us about 180 to 190,000 years, whether we believe it or not, but that's at least someone's guess. What has been shared human experience of how we know what it is to be human and how we know what our lineage is. It is telling stories.

We are, today, as we've always been, the product of our oral tradition. Writing is about 6,000 years old, and is a fine communication device, but it has the odd effect that you don't hear the hearer. You have to try to create listening through the page. On the other hand, what do we love to do most in family is hear our stories. Now nobody else is going to be much interested in our summer vacations that we went as a family, but we will watch that movie over and over.

We will hear Grandma's stories over and over. We know the punch lines; we know the outcomes, but we're always surprised because this is to be human. Well, when you begin

# *The Solari Report*

## *Building Wealth in Changing Times*



that process of storytelling, and you really have a tradition of the storytelling, all the values of your family come out as those stories are told.

**Catherine:** We discover who we are. Who are we?

**James E. Hughes:** Yes. And then we know where we're going. We have to know where we've come from, I believe, to know where we're going. And it is storytelling – real storytelling. So, for instance, when I was first coming out of the dark wood, and I was beginning to imagine some of the practical things that I might be able to help a family to do to grow its human and intellectual capital, to find a way of governing itself to make some joint decisions; it occurred to me to look at the agendas of the family meetings.

And to my horror, I found the agendas were basically the agendas that had only to do with the financial capital. There was no game playing, there was no storytelling, and there was no report of the rising young adults, no report from the elders of what they were finding. There was just concentration on the financial capital. And of course then what I discovered was those agendas were made entirely by the people, who were responsible for the financial capital, were fascinated by it. And I could then understand why they got such poor attendance.

**James E. Hughes:** So hitting myself upside the head and I thought to myself, “Well, I gotta be adventuresome.” I’m going to ask some of these families that were asking if I could help them, “Well suppose half the agenda still was on the financial matters because those are important stewarding and concerning questions, but suppose the other half had to do with storytelling and had to do with reports from the youth of their dreams and reports from the elders of their experiences, and suppose we tried that.” Well, to my amazement, and I have to say I was amazed; we began to get 100 percent attendance.

**Catherine:** Wow.

**James E. Hughes:** Now, that did not mean that people felt that they needed to get on their BlackBerrys when the financial reports were being made. But for the 50 percent of the meeting it was actually about them; it was 100 percent attendance.

**Catherine:** One of the ideas that you talk about in the book that I love is the idea of the family bank. Because to this day, I am shocked to see the extent to which – whether it's families of modest means or very wealthy, we're investing in large entities far, far away and not cycling money within the family venture hopes of the kids, or somebody is in trouble gifting money. There's a lot of circulation that could be going on that could build up the human and intellectual capital and even the business capital as the family, but we're not thinking that way.



We're not thinking about how is our family and our family network as an opportunity, so maybe if you could just talk a little bit about the family bank, I just love that idea.

**James E. Hughes:** Well, my father, who had his great qualities, was this great lawyer, and also is affirmative, as all of us do. But one day, when my youngest sister was turning 21, he called me aside at her college graduation and he said, "Jay, I want you to tell your younger brother and two younger sisters that your mother and I are now a bank."

He says, "Dad, we're not bankers. You're a lawyer and I'm a lawyer. We are five generations of lawyers" He said, "Yep, just tell them we're a bank and the bank window is open." So I thought to myself, "I think I will be tardy about that one." Which is another thing he's taught me how to be tardy in the best way. I didn't know what I was doing, not just to rush ahead and just do it.

So a few weeks later, I sat down with him again and said, "Dad, I've been pondering this. I've been tardy. I didn't tell –." And he said, "Oh, that's all right." But then he said, "What are you talking about?" And he said, "Well, look, your mother and I had a dream. We started out from two depression era families, totally – one bankrupt and the other might just as well have been. Your mother and I have been major savers and really worked hard to save.

And our basic goal, our dream, in fact, was for the four of you to have college educations. Well, that's complete, and we still have enough capital." And he said, "I'm not talking about spending the capital your mother and I need to live as general folks, however long they've lived," and one lived to 92, and mom is still alive at 90. He said, "I'm talking about the extra. It's not huge. I practiced law and I saved. I wasn't adventuresome."

He said, "Basically my thought is that to grow a great family, which is your mother's and my really big dream, if the four of you are siblings and your spouses will look to the bank for loans or grants that will be made by all of us together. So you need to put in a business plan and you need to make a request, and we'll gather and we'll ask you questions. We'll try to help you with it. We'll offer our human and intellectual help with it. And then if financial capital is needed, we will try to support it. And in that sense, we are a family bank."

Well, I can only say how much to my father and mother that that has, for our family, been one of the great binding ideas and similarly for many families that I've helped binding an idea. And not to help go on too far, but just to say – in fact just last night, I was reading a book about a remarkable life's journey of a great adventurer, and law of attraction and lo and behold, his story is a story that when an opportunity came, he went to the banks, he went to friends, no one could help.

# *The Solari Report*

## *Building Wealth in Changing Times*



And finally he went home to his mother and to the jar; this was a immigrant family, and immigrated out into South Asia. And they had a jar. And what that family's tradition was that is if they had a few extra coins or a few extra pounds or dollars, they would put it in this jar. And if you needed it, you took it out and just left a note that you had done so, and if you were able later on, you put it back. And it was in from that family bank, that jar, that he had the funds to go on and create what is today one of the world's greatest fortunes.

**Catherine:** It's amazing. When I look at the entrepreneurs that I know who have done incredible things, again and again and again, you come back to the financing and the support that they received from their families. And it's probably the most critical form of venture capital in this country.

**James E. Hughes:** It absolutely is, and that same gentleman in this book speaks to each of his children everyday.

**Catherine:** Wow.

**James E. Hughes:** And because, as he said, being a Holocaust survivor, family is everything.

**Catherine:** Right. It's funny when you describe the family bank, what you are describing is creating a really powerful constituency to help you get smart, stay smart, and with all the practical aspects of starting something and being successful, including the financing. And it's a – to me, it's a way of thinking that if a family can do it, it becomes really powerful.

**James E. Hughes:** I can think of no more practical and useful thing. And I do want to say the most important assets in that bank are the human and intellectual capital of those who hold an interest in the bank.

**Catherine:** Right. And that's why I also want – you have a lovely section on the role of aunts and uncles, and I am – it's really cousins. I sort of play aunt to two of my cousins here. And so it resonated very deeply. So I wanted you to just mention that if you could.

**James E. Hughes:** Well, first, the role of aunts and uncles in modernity has fallen away at least in a good part of America because we all move so often. The closeness that existed. This is somewhat of a tragedy because aunts and uncles share the same DNA with us as our parents. They are the only other biological creatures and psychological creatures who have the same investment in our success as our parents. With one the great advantage over our parents that they can be objective.

I haven't met an objective parent. Perhaps, you are one, but I'm not. Aunts and uncles have a certain degree of objectivity that parents don't have. So one of the tragedies of modernity is that we have lost the closeness to aunts and uncles that they will naturally have for us.

# *The Solari Report*

## *Building Wealth in Changing Times*



Now that doesn't mean we all like each other a lot. I'm not saying that. But we start out with the probability that our aunts and uncles will have a fundamental interest in us, particularly if we're lucky enough to have a maiden aunt or bachelor uncle, who decides that maybe we are, in some sense, their biological heirs.

In my life, my father's single sister – he has just the one sibling, was a maiden lady. And she was of enormous importance to me and to my brother and sisters as we grew up. She was the one who remembered the holidays, when mom was legitimately way overtaxed with four kids. She was the one who showed up on Halloween with the false faces. She was the one at Christmas who showed up with the very odd candy that we weren't supposed to have. She was the one who showed up all of the times. And always with a poem because she was a poetess.

I think one cannot, literally, overestimate the value of aunts and uncles if we can take the time to really get to know our nieces and nephews well. I will say, personally, in addition to my aunt, that I have been blessed, again, since the dark wood. I didn't really know this before that, blessed that at this stage of my life I've actually gotten to re-know all my nephews and nieces and it's been one of the most joyful experiences I have ever had.

**Catherine:** That's fantastic. The one last thing I wanted to make sure we touched on is I spent a lot of time trying to understand the economics of communities. And right now I'm working on a game to help people invest in their community – I was working with sort of the designers of the game. And I pointed something out to them that they didn't realize.

I said, "Look. It's very simple. If you want a successful community, then you have to build great families that are financially successful. If you get – as a design metric, if you take the community where there are two families that are successful and you can 20 families that are successful, you're gonna have a much more successful community. It's almost that simple." And so I think when we talk about the preservation of family wealth, many people don't realize we're also talking about the building of great communities.

**James E. Hughes:** Well, we are, and if I may end with the great philosopher of human communities; it was Aristotle – in Aristotle's great book: *The Politics*, he makes the point that the building block of every community is rock solid families. You can't have a society larger than the family, if the family building block of that society is not strong and well-bonded, as is necessary with all good structures. So every society is what? It is built up of the families that make it up.

If they are weak, you build on sand and that society will go away with the tide. If families are strong, if they're growing their human and intellectual selves, they are enhancing each other's journeys of happiness, they have a common purpose, they grow the financial capital because they learned to be good stewards, which is a process you can only learn if you're thriving

*The Solari Report*  
*Building Wealth in Changing Times*



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human intellectual self. You have a strong family. It's drawing from other strong families, and, surprise, surprise, you have a very strong community.

Absolutely fundamental and you can't change it. Aristotle talked about it in 400 something B.C. – or 300 something B.C.

*Catherine:*       And we're still trying to figure out how to get it to work on the ground.