

You May Be Wealthier Than You Think

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When thinking about the capital used to build a legacy, most people immediately default to their hard assets – the financial wealth they've accumulated over time. But the gifts and resources your family passes through the generations expand far beyond money. Let's explore the various kinds of family capital you already possess and what you can do to develop them.

"If we want to empower our families' future stewards of wealth, we can start by applying a more holistic and fundamental definition of what 'wealth' really is."

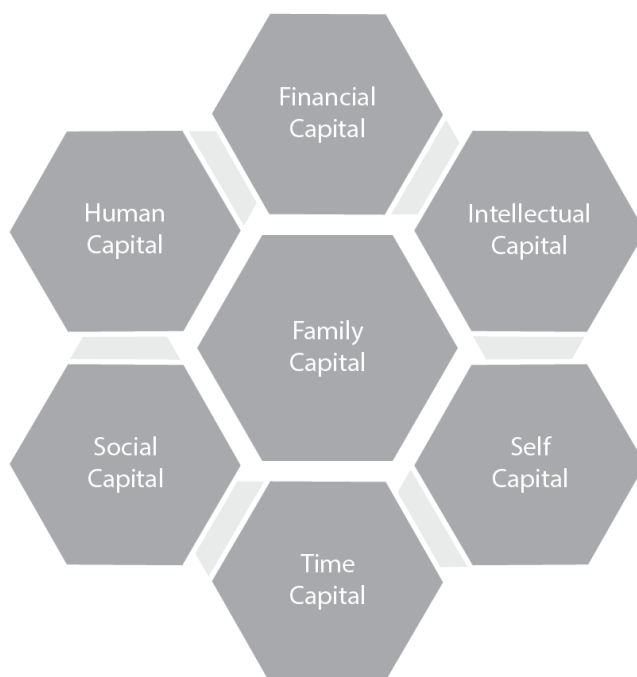
DEFINING YOUR FAMILY'S CAPITAL

Enhancing your family's capital takes time and intentionality, and it starts with understanding all the assets your family already possesses.

Financial Capital

What it Is:

Financial capital can be considered your "hard assets" – cash, stocks, bonds, real estate. It's the most readily understood component of family capital. ▶



You May Be Wealthier Than You Think *continued*

Its Impact on Family Capital:

Your financial capital is arguably the easiest to quantify and transfer to others, be they members of your own family or outside charitable organizations. As you consider your financial capital, it's worth asking:

- For what goals will family capital be put to use? What do you want your family capital to accomplish over the long term?
- Are other family members fully involved in the design and goals of your wealth management plans? It's not uncommon for individual family members, especially those of younger generations, to have life goals and priorities that are different from your own.
- Is your financial capital appropriately structured and invested to accommodate, if not thrive in, a range of market conditions?

Intellectual Capital

What it Is:

Intellectual capital is the "hard skills" family members need to have to be contributing members of society. It includes the knowledge the family has accumulated over time, such as a family member's college degree, the understanding how to run a family business or hard-earned perspectives from life experience.

Its Impact on Family Capital:

Often intellectual capital runs hand-in-hand with financial capital, such as when financial wealth is accumulated through a family business. Here are some questions to consider as you look to your own family's intellectual capital:

- Does your family's intellectual capital need to be shared? If important knowledge is consolidated in just one or two people, you should consider a plan for passing it on for the future.
- How will you develop your intellectual capital? This is especially relevant for family businesses: As society evolves, so do its technology and the needs of its citizens, and what brought your family business success doesn't guarantee its future. If your family's intellectual capital is to stay relevant, it needs to keep pace.
- Intellectual capital is not just for family businesses: Every family has a history – how it came to be, the obstacles it has overcome. This important information can be lost without concrete plans to pass it on to future generations.

Human Capital

What it Is:

Human capital comprises the "soft skills" family members need to have to build relationships and develop personally. It includes the ability to mature and learn how to self-manage.

Its Impact on Family Capital:

We all know people who seem emotionally older or younger than their physical age would suggest – and there are times in every family where human capital is essential. Consider:

- Families often burn through financial wealth when it's transferred to members who lack the human capital to serve as good stewards. Have you taught your children how to prepare for inheriting wealth or considered placing conditions on when and to whom that wealth is transferred?
- How can you further the human capital of the next generation? A college education can be a worthwhile investment, but only if the recipient is mature enough to take advantage of the opportunity.
- For those moments when maturity and judgment are particularly indispensable, such as a health emergency requiring power of attorney or healthcare power of attorney, do you have a plan in place so the right person is making important family decisions?

Self Capital

What it Is:

Social capital is your family name, reputation or presence in the community. Unlike the previous aspects of family capital, social capital creates its value outside the family structure.

Its Impact on Family Capital:

For families who are especially active in their communities, social capital is a vital component of family capital and legacy planning. Here are questions to consider as you build your family's social capital:

- What is your family known for? What is your reputation in the community?
- What can you do to develop your social capital? Are there philanthropic activities or creative business or charitable sponsorships that can bolster your financial capital as well as your social capital? ►

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- Are there ways to tie efforts to build your social capital with your intellectual or self capital? For example, if you choose to fund a charitable foundation, how can you do so in a way that makes sense and is personal to your family?

Time Capital

What it Is:

Time capital reflects your most precious resource – how much time you have on Earth. And as we might also say about your financial capital, its value is determined less by how much you have and more by what you do with it.

Its Impact on Family Capital:

Time capital is a resource, and like any resource, it needs to be spent wisely. As you think about how you use your time, consider:

- How well are spending your time? Often we'll see the head of a family working to increase their family's financial capital – not because the work gives them purpose or their wealth management plans demand it, but out of habit. Would that time be better spent on your family's self capital?
- You can't buy more time capital, but maybe you can outsource it. Are there tasks that can be delegated elsewhere to free up your time?
- Time capital applies to more than just you. Are there ways to increase the time capital for other family members?

A FULLER UNDERSTANDING OF WEALTH

This more holistic understanding of family capital can influence a range of family behaviors and dynamics, from fostering a sense of stewardship to talking about wealth to kids and grandkids. It can also offer a new, broader perspective into wealth management and the services offered through your Baird Financial Advisor, helping you develop the multiple aspects of family capital and increase your own family's wealth.

Please reach out if you or anyone you know would benefit from discussing this topic further.

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