

# Beyond 2012: The KISS Paradox

What is the single most important issue facing family offices in the U.S. today? The approaching Fiscal Cliff? Increased taxes on investments and high wage earners? Financial repression and lack of cash flow from common investments? Indeed, it is easy to be lulled into focusing on these short term issues, but yet, now more than ever, it's critical to focus on the longer term, beyond year-end 2012 and 2013. Even though these short term issues are important, our clients see the biggest risk to their family offices as failure, over the long term, to manage complexity or more precisely, managing it poorly.

Complexity in family wealth management and governance will intensify rather than abate - in planning, implementation, reporting and compliance - and will continue to challenge our ability both to make the necessary multi-dimensional judgments and to coordinate across silos of expertise. Risk management at implementation and as an ongoing, pro-active matter will become a primary tool in managing complexity well.

We also will favor and employ the KISS principle as the other primary tool in countering this trend toward complexity. We will ask the right question - is the family adding to the burden of managing complexity when adopting a new investment process, deciding on a new tax or trust plan, revising compliance and data operations, upgrading technology, enlisting multiple sources of expert advice, designing a plan for succession and family governance, etc.? Then we will lean toward the KISS answer - why not just "keep it simple, stupid"?

Yet the KISS principle contains a paradox: we cannot answer the question by thinking simply. We know that complexity adds cost and risk in many ways. It multiplies the required commitment of resources, time and energy, increases the risk of error and confusion, and serves as an impediment to understanding.

Yet, the benefits of simplicity are so self-evident that we often overlook its cost. The best solution to an issue may indeed be the simple one, but the process for identifying that best solution and having confidence in that solution will not be so simple.

Investing more effort in the initial analysis will be amply rewarded if we choose the most productive plan, which may be more complex, and discard choices that lack power and potential, however simple or not.

Let's consider:

1. Should we keep it simple when we invest the assets of family trusts or lay out a tax and estate plan over time? Should we instead employ a variety of investment classes, and various kinds of family trusts and charitable vehicles, each one with different attributes or goals, providing a combination of family, tax, legal or economic functions or a range of outcomes. Using a single vehicle may seem simpler, but it may not in fact be easier to manage given family goals and governing regulations and tax law. The simple solution may also surrender flexibility, increase risk and limit potential. Should I bring a single tool to the task, or can I benefit from a combination of solutions?

2. Do I understand the reason why a choice is more complex and the

consequences? Am I buying a more powerful solution, or being sold? Does the solution provider favor the complex solution for extraneous reasons - to display expertise or a proprietary process, cement a continuing engagement, or satisfy his or her own thirst for complexity? Will the family end up with complexity in layers, adding one complex structure (for investments) on top of another (tax results) without stress testing or even identifying the interactions of the multiple layers?

3. Is future uncertainty sufficiently addressed? Families and the family structures that serve them undergo more frequent transitions than we realize. Important changes can occur within ten years or less. Will the simple solution be powerful enough to adapt over time to changes in the family, investments, and laws and taxes? Will the simpler solution reinforce the family's resilience or undercut it?

We and our clients tend toward the KISS solution to issues because it's simpler (and thus easier!). However, the KISS solution is not necessarily the better solution just because it's simple. Over the long term, the KISS solution is better only if it is sufficiently flexible to evolve with changing times. ■

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