

Safe & Sound

How Single-Family Offices Are Addressing Family Security

More and more single-family offices are adding security services to their range of offerings. This trend is expected to continue as both security challenges and security concerns among the ultra-wealthy rise.

November 2011

November 2011

Rothstein Kass

Through economic peaks and valleys, in bull or bear markets, the allure of a career in wealth management remains strong. Few vocations offer the earnings potential, opportunities for professional growth and personal fulfillment that working with the wealthy can. As a result, the sector continues to attract talented professionals from backgrounds as diverse as the family interests they represent.

More recently, growing demand for a unified approach to wealth management has supported the rapid proliferation of the single-family office model. Today, single-family offices represent greater assets under management – both on average and in aggregate – than at any previous point in history.

This has greatly increased the influence of the single-family office executive director, often the individual most directly responsible for integrating and aligning interrelated components of the family strategy. It is a role better defined by function than title, especially as executive directors assume oversight of a growing array of financial and lifestyle services on behalf of wealthy families. Simply stated, the executive director is the custodian of the family brand.

Selecting the right candidate is highly dependent on individual family preferences, and skilled executive directors have emerged from many different walks of life. Through our past research, however, we have identified common traits that include financial services acumen, strong interpersonal skills and specific technical expertise. From our experience, we know that a number of secondary attributes are critical, including sharp protective instincts and the foresight to plan for all contingencies. These characteristics are center stage as more wealthy families turn to the single-family office for assistance in managing family and personal security concerns.

Wealthy families have long recognized that their fortunes make them a target for unscrupulous advisors and criminal elements. The risks are heightened by the blurring of the line between wealth and celebrity, as well as by growing technological threats including cyber-bullying and identity theft perpetrated using social media. Executive directors are more frequently concerned not only with the physical safety of the family, but also with safeguarding the financial and emotional well-being of the family. Individual circumstances dictate the appropriate level of protection, requiring development of customized family strategies.

Our latest survey was commissioned to gain a better understanding of the scope and quality of family security services currently provided by single-family offices. We are proud to share the resulting report, drawing on the insights of various experts including the principals of the Rothstein Kass Family Office Group. We encourage you to contact us to discuss findings and thank you for your continued support.

Sincerely,

A handwritten signature in black ink that reads "Richard J. Flynn". The signature is written in a cursive, flowing style.

Richard J. Flynn
Principal and Head of Rothstein Kass' Family Office Group

Safe & Sound

How Single-Family Offices Are Addressing Family Security

Key Themes

- A growing number of single-family offices are providing family security services to the ultra-wealthy families they represent.
- Demand for security services is driven by both the perception that significant fortunes attract criminals and the fact that many ultra-wealthy individuals have encountered security issues in the past.
- Looking forward, nearly nine out of ten single-family office executive directors we surveyed expect the security challenges will worsen.
- Executive directors note that ultra-wealthy families have many security concerns. Among the most pervasive:
 - Trusting the wrong people
 - Identity theft
 - Property being stolen or vandalized
 - Assault against themselves or loved ones

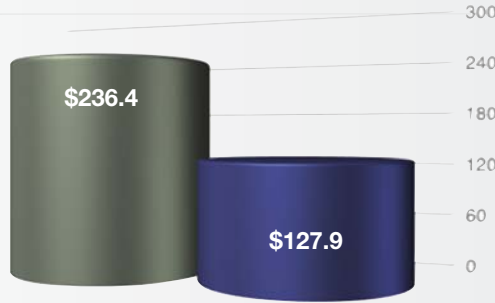
Single-Family Offices Providing Family Security Services

Single-family offices come in a wide variety of forms and configurations. The diversity in operational structure and objectives results from the highly idiosyncratic tendencies of the individual families each office represents. The best way to conceptualize a single-family office is as an organizational structure that manages the financial and personal affairs of one wealthy family.

Though the range of services single-family offices provide is nearly limitless, offerings generally fit into one of two broad categories: wealth management and support services. Wealth management often encompasses investment management, advanced planning, private investment banking and, often, philanthropic services. Support services typically include administrative and lifestyle services. Lifestyle services represent one of the fastest-growing segments of the single-family office, driven by an increasing demand for family security services.

Before further examining the conditions and perceptions that are motivating ultra-wealthy families to reassess their personal security needs, it is interesting to note that the investable assets that single-family offices represent have continued to increase in recent years. In 2009, we surveyed the executive directors of 376 single-family offices on a wide array of topics and issues. The mean investable assets managed by these single-family offices was US \$236.4 million (Exhibit 1). For this report, we surveyed 151 executive directors of single-family offices in early 2011 and found that the amount of money these single-family offices were managing was meaningfully greater than in 2009 (Exhibit 2).

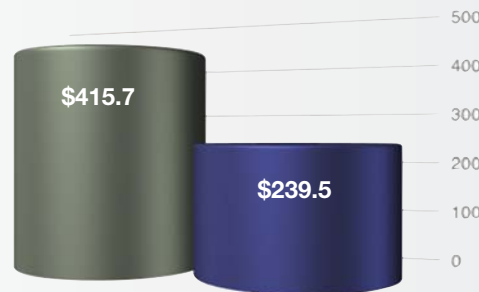
Exhibit 1
Investable Assets of Single-Family Offices 2009



Mean	US\$236.4M
Median	US\$127.9M

N = 376 single-family offices
Source: The Family Office: Advising the Financial Elite (2010)

Exhibit 2
Investable Assets of Single-Family Offices 2011



Mean	US \$415.7M
Median	US \$239.5M

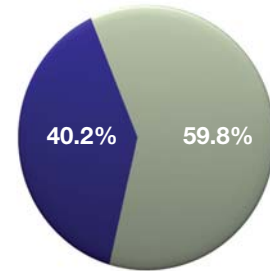
N = 151 single-family offices

“Like most investors, wealthy families experienced a short-term decline in their overall net worth in the months following the global financial crisis of 2008-2009. Single-family offices are designed to focus on long-term family objectives, approaching financial and lifestyle services as components of an integrated strategy. Effective wealth preservation strategies, including strategic allocations to alternative investment funds, shielded many high-net-worth families from the worst of the crisis. Meanwhile, access to top investment managers helped many single-family offices find opportunity amid the volatility,” said Rick Flynn, a Principal and head of the Family Office Group at Rothstein Kass. “Our research confirms that, on average, single-family offices have greater investment capital available for deployment, and they are increasingly turning to alternative investment managers with a proven model for delivering the consistent results required for effective family planning.”

“The role of a single-family office executive director requires an individual who can facilitate and manage an ever-expanding array of interrelated family interests. Though many bring a financial services background to the position, they are asked to incorporate critical functions ranging from bill-paying to the adoption of a child into a long-term family plan. Though some duties are selectively outsourced to qualified service providers, executive directors retain oversight responsibility for all aspects of a family strategy,” said Mr. Flynn. “Security services supersede traditional financial services and lifestyle services designations. Since executive directors already occupy a central role in advanced family planning, they are ideally situated to coordinate family security functions. The success of this model has supported further proliferation – there are more single-family offices than ever before, and most now provide some level of family security services to their clients.”

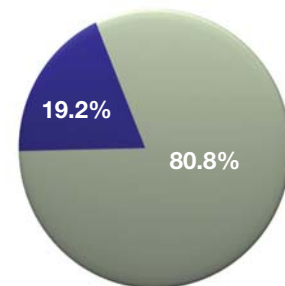
Our 2009 study found that amid the global financial uncertainty that prevailed, nearly 60 percent of single-family offices were already providing family security services (Exhibit 3). By 2011, we found that the percentage of single-family offices directly or indirectly providing family security services increased to about 80 percent (Exhibit 4).

Exhibit 3
Providing Family Security Services in 2009



Providing family security services	59.8%
Not providing family security services	40.2%
N = 376 single-family offices	
Source: The Family Office: Advising the Financial Elite (2010)	

Exhibit 4
Providing Family Security Services in 2011



Providing family security services	80.8%
Not providing family security services	19.2%
N = 151 single-family offices	

Rationale for Providing Family Security Services

Data confirms a meaningful increase in the number of single-family offices finding it important, if not a requirement, to deliver family security services. The motivations for delivering these services are consistent among the executive directors we surveyed (Exhibit 5). Ultra-wealthy families recognize that their considerable fortunes make them a target. Current economic conditions and the availability of personal information on the Internet exacerbate concerns.

About three quarters of these single-family offices have encountered issues that have required the expertise of family security specialists. This firsthand experience is often highly motivational. Along the same lines, the knowledge that other ultra-wealthy families have had security problems is a motivating factor for about three out of five of the single-family offices to offer family security services.

For about half the single-family offices, their clients' lifestyles attract attention and/or open the door to potential security problems. For example, many of the ultra-wealthy can be considered global citizens. As such, depending on where they travel, they may be more likely than the average citizen to confront security problems.

For less than half the single-family offices surveyed, the fact that the ultra-wealthy family is famous can act as a magnet for criminals. Being renowned and rich can be highly appealing to the wrong people. What's important to understand is that many of the ultra-wealthy are not generally well known – and they want to keep it that way.

“For some wealthy families, the security imperative is further heightened by lifestyle considerations specific to their situation. Celebrity family office clients, for example, have demanding travel schedules, and public appearances are often an important tactic for building a personal brand. Their risks are clearly magnified by their status. As the line between wealth and celebrity blurs, however, a greater percentage of wealthy families are working with the executive directors of their single-family offices and other consultants to develop customized strategies that reflect the realities of the risks they face,” said Mark Hutchison, a Principal in the Rothstein Kass Family Office Group.

“The executive directors surveyed demonstrated an almost universal recognition that their clients’ wealth makes them an attractive target for criminal elements. Unscrupulous individuals grow ever more devious and sophisticated in their approach, often relying on technology to gain the edge that can compel families to lower their guard. At the same time, difficult economic times have emboldened some criminals to become more daring in their attempts,” said Bruce H. Rogers, Chief Insights Officer at Forbes Media. “Amid such conditions, it was not surprising to learn that so many executive directors have encountered such situations in recent years. They are not dealing with family security challenges on a theoretical level – they are immersed in these concerns.”

Exhibit 5
Rationale for Providing Family Security Services

The family's wealth makes it a target	98.4%
The family has experience dealing with security problems	77.0%
The family knows others of wealth who have had to deal with security problems	57.4%
The family's lifestyle opens the door to potential security problems	51.6%
The family's fame makes it a target	45.9%

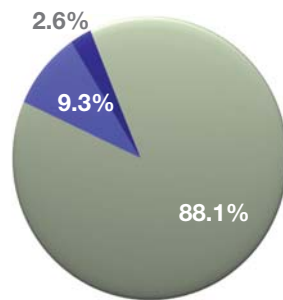
N = 122 single-family offices

It Will Only Get Worse

Noting factors from a persistently poor global economy to the increasing bifurcation of wealth, almost nine out of ten executive directors of single-family offices surveyed expect security threats to ultra-wealthy families to intensify (Exhibit 6).

“The strong consensus that risks to wealthy families are increasing suggests that those single-family offices that do not currently offer such services are already behind the curve. Many will take steps to introduce such services in the coming years, and will rely on their rich relationship networks to identify reliable and trustworthy service providers. Many of the single-family offices that already provide family security advisory services are being asked to enhance the scope of services they offer to include cybersecurity, investigative services and other offerings,” said Philip P. Scala, a retired FBI Supervisory Special Agent who is the founder and CEO of Pathfinders Consultants International.

Exhibit 6
Changing Level of Threat



The situation will worsen	88.1%
The situation will stay the same	9.3%
The situation will improve	2.6%

N = 151 single-family offices

Evaluating Key Family Security Concerns

We identified a broad spectrum of concerns for which single-family offices are taking actions to mitigate or avoid (Exhibit 7). The most pervasive concern—trusting the wrong people—is shared by nearly 90 percent of single-family offices. This includes a broad array of individuals who interact with the family members. Household staff, consultants, business associates, friends and lovers can all have nefarious agendas and must be thoroughly screened. The way this concern is often addressed is through initial and repeated background investigations.

(See Sidebar #1: The Background Investigation.)

“Many of the people with whom wealthy family members interact on a daily basis enrich their lives tremendously, and many are also central to maintaining an effective long-term family strategy. It can be very difficult to broach sensitive subjects involving personal history early in personal and professional relationships, but it is essential. Executive directors can help the family to employ a ‘trust but verify’ philosophy by acting as a central intelligence center for its affairs,” said Mr. Flynn.

Slightly more than three quarters of single-family offices are protecting against or are positioned to deal with identity theft. This often includes extensive monitoring and quick corrective action. Lately, it also regularly involves being attuned and attentive to the problems that can arise in relation to the use of social media by the ultra-wealthy family.

More than three out of five single-family offices are dealing with or are prepared to deal with protecting personal information. This includes ensuring the privacy of health records. At the same time, only about half the single-family offices are positioned to address the privacy of business information. In both these situations, the ability to implement “hacker-proof” computer systems and communications is essential.

“Most single-family offices are adept at handling the threat of identity theft, their skills having been honed through years of experience. The emergence of social media has created new vulnerabilities that can arise through seemingly innocent online activities. Some family offices are structured to focus on the financial consequences of identity theft. They are quickly developing strategies to guard against the reputational damage and privacy invasions that can result from unmonitored use of social media tools,” said Mr. Scala. “The objective is to afford wealthy families all the freedom and conveniences that social media interactions can bring, while educating them about the possible risks.”

About seven out of ten single-family offices are empowered to protect the property of their clients—whether protecting houses from burglary or yachts from vandalism. This can involve overseeing the installation of an alarm system and related defensive equipment, and making periodic readiness reassessments. It also often entails provisioning transporter services for valuables such as jewelry and artwork.

A physical confrontation between predators and family members is a worst-case scenario for many families, and seven out of ten have addressed this concern with their single-family offices. To prepare for a range of scenarios that can include kidnapping and stalking, single-family offices are providing services from employing close protection personnel to offering various levels of defensive combat training to members of the very wealthy family. (See Sidebar #2: Building a Rich Defense.)

“Because cybercrime and identity theft are so widespread and insidious, they have been a persistent focus of state-of-the-art security services. This has not diminished the effort devoted to the prevention of physical crimes from theft and vandalism to assaults committed against family members. Often, executive directors assist in coordinating cybersecurity efforts with traditional protective services to ensure cohesive safeguards,” said Mr. Flynn.

What happens when the police knock on your door? Unfortunately, a significant number of high-net-worth individuals have been forced to confront this question. Should this scenario unfold, about two thirds of the single-family offices are empowered to act on their clients' behalf. One fairly common situation involves children running afoul of the law. There are very good protocols to follow in these circumstances.

“Our past surveys of advisors to wealthy populations have revealed that many of the same forces that make high-net-worth families attractive to criminals lead them to be the targets of frivolous legal action. And while accusations make headlines, exonerations often go unnoticed. Many families now recognize the importance of developing contingency strategies to aggressively confront legal issues as they arise. Most would rather avoid having the matter tried in the court of public opinion, where the damage to their privacy and reputations can be irreparable,” said Alan Kufeld, a Principal in the Rothstein Kass Family Office Group.

More than ever before, the ultra-wealthy are global citizens or, at least, global travelers. Nearly three out of five single-family offices are positioned to deal with the security of family members when they are abroad. Even when the trips are “local,” such as from New York City to the Hamptons, single-family offices often address the security considerations. Protective actions run the gamut, from using defensively equipped cars, to deploying close protection personnel, to employing tactics as basic as varying a travel route.

**Exhibit 7
Key Family Security Concerns**

Trusting the wrong people	89.3%
Identity theft	77.9%
Property being vandalized or stolen	72.1%
Self or loved ones being assaulted	70.5%
Self or loved ones getting into “trouble”	66.4%
Someone gaining access to personal information	63.9%
Security when traveling	57.4%
Someone gaining access to business information	51.6%

N = 122 single-family offices

In a dangerous world, many of the ultra-wealthy are sensitized to the burgeoning threats and are taking action to mitigate their likelihood. Concurrently, the ultra-wealthy want to be able to expeditiously and effectively tackle these kinds of problems if necessary. As the single-family office is often the means for the very wealthy family to manage its personal affairs, the single-family office is often the conduit through which family security services are delivered.

Sidebar #1

The Background Investigation By Philip Scala

When background investigations are important to determine the character and qualification of individuals dealing with the ultra-wealthy family, such as employees or prospective business partners, a security check alone is definitely not sufficient. A full-scale investigation is a much better choice in determining who is trustworthy and qualified, and who is not.

A full spectrum of background investigations is available to single-family offices. With ease of access to the basic search engines, a large amount of information can be amassed about the person, place or thing of interest. However, the key is to know where and how to come up with information that is significant, actionable and corroborative.

There is no need to spend a lot of money for a casual check, but where a check of a person's character, trust and reputation is required, then an extensive professional background investigation is normally advised. There are three main components to a professional background check:

1. Employing an experienced, reliable and highly credible investigative firm.
2. Using relevant search engines and private data banks.
3. Allocating resources to fully investigate and conduct surveillance measures to identify the missing elements of the paper trail.

A professional background report may include any or all of the following classifications obtained from the investigative

firm's most relevant, credible and proprietary databases, applicable publications, and federal and state record checks:

Date of birth/social security number of individual: verifies age, identity and labor record. A fraudulent SSN may be indicative of identity theft, insufficient citizenship or possible concealment of a "past life."

Names associated with the individual: this association provides insight into possible relatives, friends and associates.

Residences (active and previous): verification tool to ascertain whether the person is who he or she claims to be (going back at least 20 years).

Driver's license information: a determination of a valid class of license, as well as the history of accidents or traffic infractions.

Registered motor vehicles: list of types and ages of motor vehicles leased or owned.

Possible employment associated with individual: verifies references on application and the number, duration and types of positions held.

Professional licenses: confirmation and status of listed license qualifications.

Bankruptcies: history and indication of financial health.

Liens and judgments: history and reasons for assets that are partially owned or lost.

UCC filings: check of Uniform Commercial Code documents relating to ownership, debtor status, secured party names, assignee status and collateral descriptions.

Federal record checks: federal, civil and criminal record checks verified through each federal district in the United States. For example, a New York check would include the Northern (NDNY), Southern (SDNY), Eastern (EDNY) and Western (WDNY) districts.

State unified court system: statewide court and corrections records and law enforcement records, which usually stem from the state's boroughs, counties or villages.

Inmate locator: sentence and prison location of incarcerated individual.

State sex offender registry: data bank containing the names, photos and addresses of registered state sex offenders.

Credit history: reflects a rating scale based on past and current credit standing, determined by the individual's history, number of credit and loan amounts and his or her timely and accurate payments.

Educational records: consent form from applicant to the educational institution for the release of transcripts and times of attendance. Another check in this area is to ask the person to bring in their respective academic yearbook.

Where integrity is mandatory, drug testing, a polygraph exam and a full-scale investigation of past employers and key personal contacts, references, neighbors and teachers is often the best approach. The addition of interviews will often yield current and significant facts that would not be ascertained by routine data checks.

It is important to note that security professionals specializing in background investigations will have analysts and investigators who are skilled and experienced in identifying cover-ups, confidence traps and false application filings.

Sidebar #2
Building a Rich Defense
By George Chaber

The ultra-wealthy are increasingly proactive when it comes to their personal well-being. More and more of them are seeking specialized self-defense training for themselves and their loved ones. Central to this training is learning to identify potential dangers in order to avoid them. When avoidance is not an option, the training should empower the ultra-wealthy to swiftly and powerfully fend off assailants.

The best fights are the ones that never happen. This is why “sensitivity/responsiveness training” is so important. By educating the ultra-wealthy and their loved ones on how to identify potential dangers and dodge them, the possibility of having a physical confrontation drops exponentially. The goal is to enable the ultra-wealthy to develop an almost reflexive understanding of harmful situations in order to take appropriate actions. Whenever possible, those appropriate actions begin with identifying ways to extricate themselves from the situation without any form of confrontation.

This perspective can be best understood as a two-step process. The first step is learning to be extremely aware of potential threats, which entails being able to smartly size up situations and people. The second step is all about how to nonviolently circumvent these threats. While avoidance is not always a viable option, it is always the goal.

Central to empowering the ultra-wealthy is customizing the educational approach. For example, the children of the ultra-wealthy are often more at risk of assault than their parents. For them, it’s essential that awareness and skills are taught in a way that engenders high involvement and is actually “fun” to learn. For adults, the “fun” element is usually less important. However, for everyone, the ability to develop effective fighting skills very quickly is essential. This is not about studying to become a black belt. Instead, it’s all about quickly becoming proficient at fighting off an attacker. Mastering specific and powerful techniques quickly is crucial.

With the goal of becoming adept at dealing with assailants with minimal training, adopting techniques from a variety of different martial arts styles has proven optimal. By subtly modifying various techniques and ensuring that they are well aligned and integrated, the ultra-wealthy students are prepared to a greater extent to successfully defend themselves against different types of attacks. As noted, what is especially critical is that these highly effective techniques are adjusted so that they’re easy to learn and master.

Aside from learning a variety of fundamental self-defense techniques, some of the ultra-wealthy want more advanced training. Even at this much higher technical level, ease of mastery is vital. As an example, there is a proprietary program referred to as XPD – for eXtreme Personal Defense – that incorporates techniques from a wide variety of martial arts styles including Silat, Pagamut, Muay Thai, and Kali. It even integrates highly effective techniques from some more esoteric martial arts such as Dim Mak. Here, the goal – because there is no possibility of escape and the ultra-wealthy client’s life and/or the lives of loved ones are seriously at risk – is expeditious neutralization of the assailant.

About the Authors



Russ Alan Prince is the world's leading authority on private wealth, the author of more than three dozen books on the topic and a highly sought counselor to families with significant global resources and their advisors. He is co-author of *The Family Office: Advising the Financial Elite*.

www.RussAlanPrince.com



Richard J. Flynn is a Principal and the head of Rothstein Kass' Family Office Group. A lawyer and advanced planning specialist, he advises high-net-worth clients on wealth enhancement, wealth transfer and asset protection planning. His clients include hedge fund managers, business owners and other executives, professional athletes and entertainers. He is co-author of *Fame & Fortune: Maximizing Celebrity Wealth* and *The Family Office: Advising the Financial Elite*.

Richard J. Flynn can be contacted at: 917.438.3956 or rflynn@rkco.com



Bruce H. Rogers is Chief Insights Officer at Forbes Media. Mr. Rogers developed and manages Forbes Insights, the strategic research practice of Forbes Media, publisher of Forbes magazine and Forbes.com. Taking advantage of a proprietary database of senior-level executives and high-net-worth individuals in the Forbes community, Forbes Insights' research covers a wide range of vital issues on wealth management and business.

Bruce H. Rogers can be contacted at: 212.366.8890 or brogers@forbes.com

About the Contributors



Mark Hutchison is a Tax Principal at Rothstein Kass. He

specializes in entertainment industry taxation, real estate and personal financial planning for owners and executives of closely-held businesses. His experience covers a broad range of tax matters including federal taxation for the entertainment industry, mergers and acquisitions, multi-state income, public companies; income tax planning for pass-through entities; and franchise tax matters. He also assists high-net-worth individuals with federal, state and local tax issues, as well as estate planning and representation before federal and state tax authorities.

Mark Hutchison can be contacted at: 310.887.5211 or mhutchison@rkco.com



Alan S. Kufeld, CPA, is a Tax Principal in the Family

Office Group of Rothstein Kass. He specializes in providing income, trust, estate and gift tax planning, wealth preservation, and federal, state and local tax compliance for high-net-worth individuals. His clients include hedge fund managers, multi-generational families and business owners.

Alan S. Kufeld can be contacted at: 917.438.3992 or akufeld@rkco.com



George Chaber is head instructor at Karate America Mar-

tial Arts Academy of Bethel, CT. He is internationally recognized for training the wealthy, and especially, the children of the wealthy in highly efficient and effective self-defense strategies and techniques. He is one of the developers of XPD—eXtreme Personal Defense—a proprietary self-defense program.

George Chaber can be contacted at: 203.792.1050 or karateamericabethel@gmail.com



Philip P. Scala is the CEO of Pathfinder Consultants International,

Inc., a security and investigation firm that brings over 150 years of investigative experience at the highest levels to any situation. He is a former Supervisory Special Agent of the FBI's New York office. For decades, Mr. Scala has been instrumental in bringing dozens of Organized Crime members to justice. He is also the founder of The Charismata Foundation, a non-profit organization aimed at researching and communicating the best practices in leadership and personal excellence.

Philip P. Scala can be contacted at: 646.256.3616 or toughchar@aol.com

Rothstein Kass

Rothstein Kass is a premier professional services firm that has served privately held and publicly traded companies, as well as high-net-worth individuals and families, for more than 50 years. As trusted advisors to our clients, Rothstein Kass provides accounting, auditing and tax services, as well as a full array of integrated advisory services, to clients across industry spectrums and in all stages of organizational development.

The Rothstein Kass Family Office Group offers a wide range of financial, wealth planning and lifestyle management services to family offices and high-net-worth individuals, including business owners and executives as well as entertainers and professional athletes. The Family Office Group applies proven expertise with the utmost discretion and attention.

Rothstein Kass has offices in California, Colorado, New Jersey, New York, Texas and the Cayman Islands.

Forbes | INSIGHTS

Forbes Insights is the strategic research practice of Forbes Media, publisher of Forbes magazine and Forbes.com. Taking advantage of a proprietary database of senior-level executives and high-net-worth individuals in the Forbes community, Forbes Insights' research covers a wide range of vital issues on wealth management and business.

Rothstein Kass

1350 Avenue of the Americas
New York, NY 10019
212.997.0500
www.rkco.com

California • Colorado • New Jersey • New York • Texas • The Cayman Islands