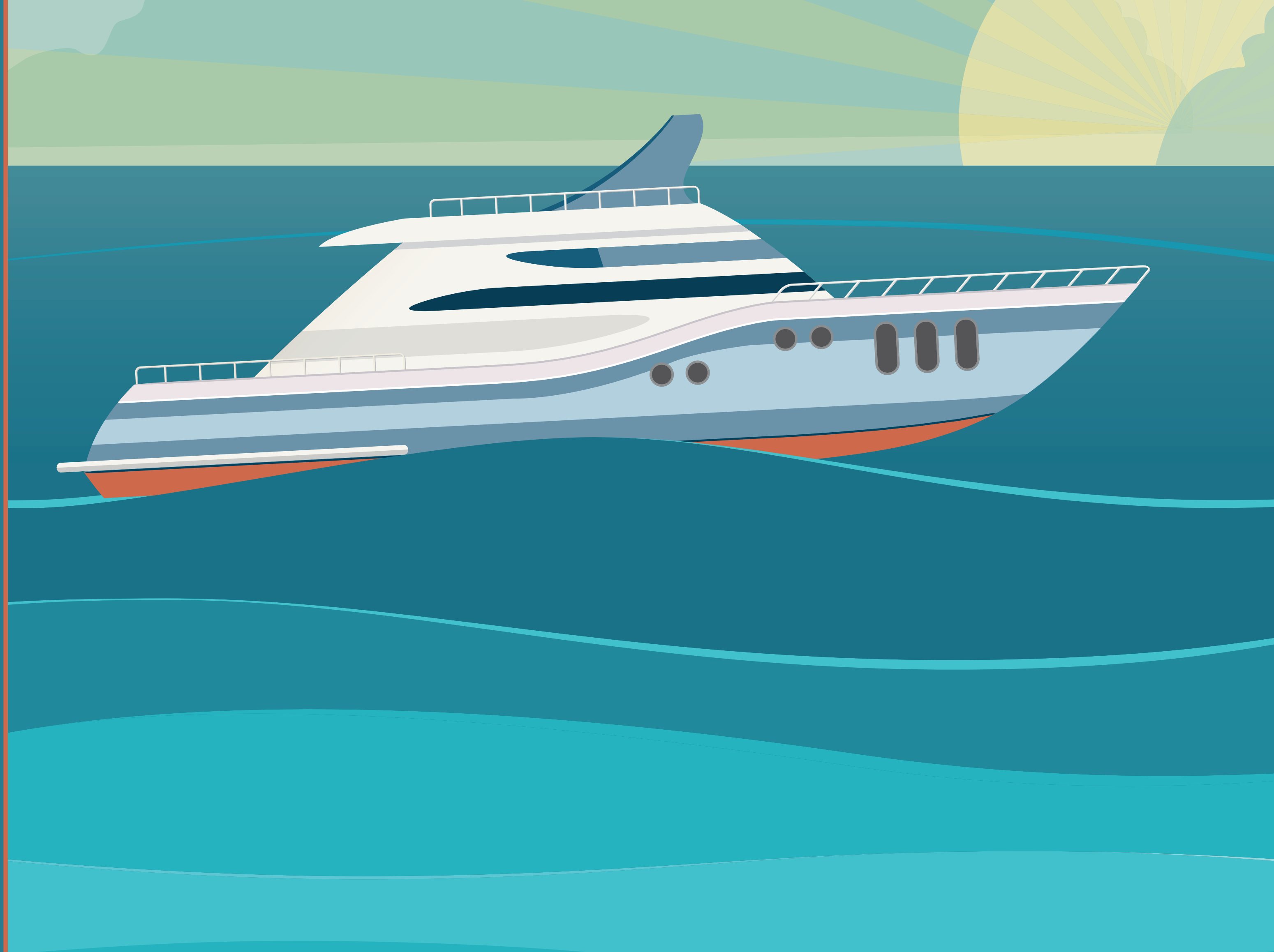
RIDING THE WAVE OF SUDDEN WEALTH

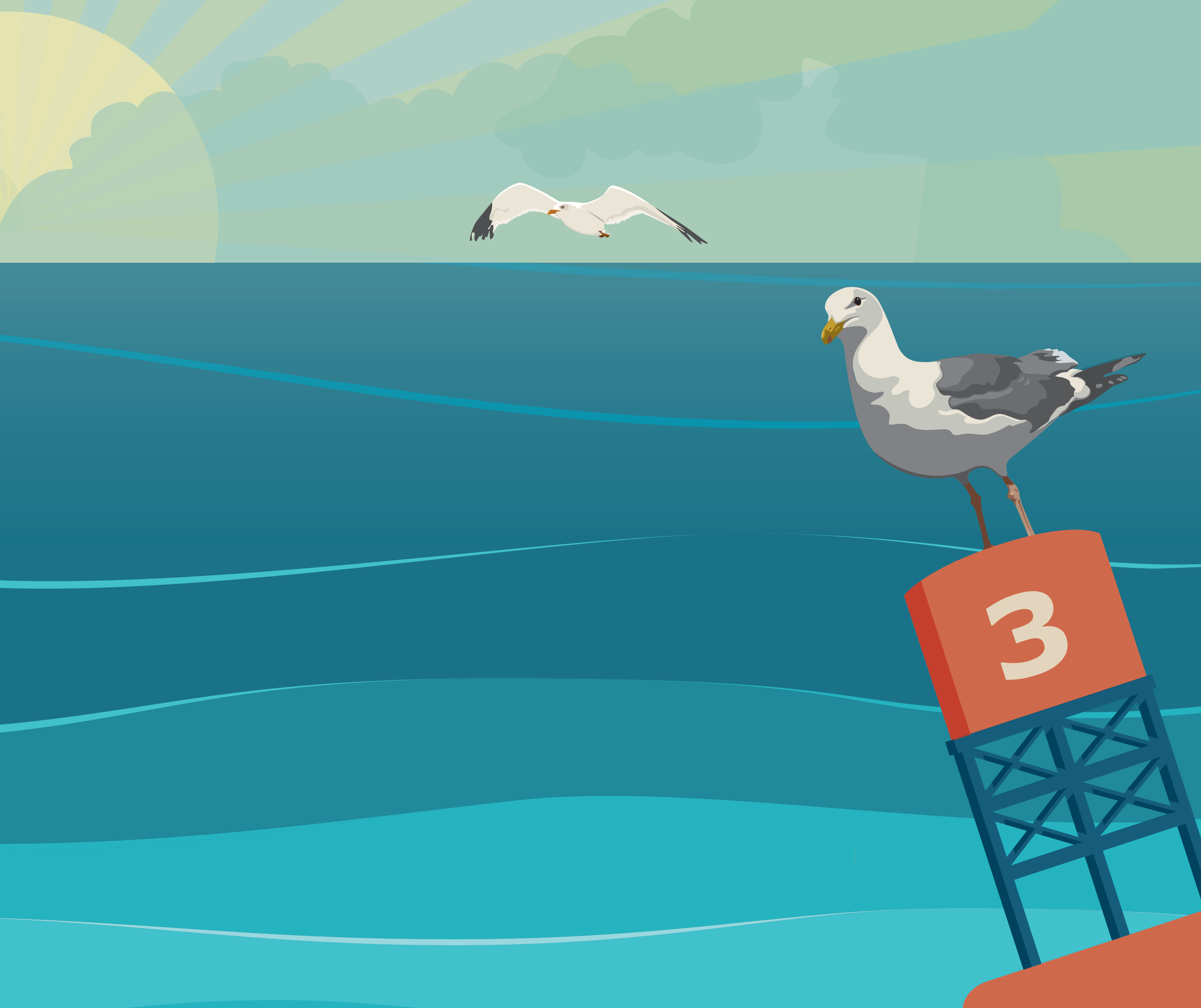
Don't let the change of fortune go to your head



There's an amount, perhaps in the back of your mind, that you know would change your life. How much is it?

$25,000? $250,000? $2.5 million? More?

You may never experience a game changer of that magnitude. But, what if? How would you handle it? Could you handle it – and the emotions that go along with it?



Three months' salary in a lump sum can set off an emotional chain reaction for most people.

The shock of sudden wealth

Research in the fields of neuroscience, psychology and sociology found that change at that level – financial or otherwise – brings with it emotional baggage, confusion and opportunity. Like any transition, sudden wealth requires an adjustment period and it may take longer than you'd expect. Up to five years by some estimates. And it doesn't necessarily take a large sum to shake up your world. Psychologist Dennis Pearne discovered that as little as three months' salary in a lump sum can set off an emotional chain reaction for most people.

If you ever find yourself on the receiving end of such largesse, it helps to understand the psychology of sudden wealth so you can proactively take steps to protect your money, your relationships and your lifestyle. There are practical things to consider, as well as personal ones. And it may help to have a financial "counselor" by your side to sort everything out.

Quick, don't do something.

So what do you do first? The answer may be nothing. Experts recommend a so-called "money moratorium" – a waiting period where you analyze your next steps and adjust to your new situation. You'll have to deal with the shock; the onslaught of advice; the urge to splurge or, perhaps, hoard the money; or spend extravagantly on friends and family. Some even want to give it all away. On the darker side, some succumb to substance abuse or other destructive behaviors, driven by temptation, paranoia or guilt. So, psychologists and financial planners often recommend a waiting period of six to 12 months before making any major decision.

You may have heard this advice before. It's common in times of transition. The idea is to refrain from buying the latest Tesla, purchasing new homes for your children, a custom tailored new wardrobe or making life-altering decisions. All in good time, perhaps, but not in the throes of an overwhelming life-changing event.

So what does a money moratorium look like? It may mean talking to your advisor to find someplace to temporarily park your money where it will earn a modest, but safe, return and saying no to requests for gifts or loans, new investments, luxury items and even putting off retirement. Use your time to assemble a solid team of professionals with impeccable credentials who will work with your advisor as you adjust to your new normal. Look for ones with experience helping other affluent people or helping others deal with sudden wealth. Friends and family, even those who wish you nothing but

Three stages of management

The Sudden Money Institute offers recommendations on what to do before, during and after a sudden wealth event. Of course, you may not always know ahead of time, but the advice is practical nonetheless.

BEFORE	DURING	AFTER
Assemble a team you trust, include attorneys, an accountant and financial advisor.	Avoid large impulse purchases.	Monitor your plan.
Address potential tax consequences and how to mitigate them.	Set a waiting period before making any lasting decisions.	Anticipate and manage risks.
Do as much groundwork as possible (e.g., establish trusts).	Create a wealth management plan.	Update your legacy/estate plan.
Anticipate unwanted attention.		Live. On your terms.

happiness, may not be as sympathetic to the stresses that come with this unusual dilemma, so you'll need people with experience in your corner.

Among the first decisions you'll need to make is securing the source of your new income, if you have a choice. In some cases, you'll have control about when and how to receive your windfall. That could mean physically securing your lottery ticket (sign it, take a photograph, lock it in a safe deposit box or vault) or whatever asset before making decisions about how you'll take ownership of the money. Then, secure your mouth. You may want to shout from the rooftops, but doing so could open you up to every scam artist within earshot. This isn't to say you should retreat Howard Hughes-style, but rather to encourage you to be smart.

Sources of sudden wealth

Sure you could strike it rich, say panning for gold or more likely with a brilliant business idea. But most sudden wealth stems from one of these.

- Significant inheritance
- Sale of a business
- Sale of real estate or family assets
- Sale of intellectual property
- Investments, like an initial public offering
- Lump-sum retirement payout
- Divorce, insurance or court settlement
- Lottery or gambling windfall
- Signing a large contract or endorsement deal

Thorny personal issues

Next, take an emotional inventory. Significant wealth spurs a host of emotions, for you and those around you, particularly if it came suddenly or unexpectedly. You may experience anxiety, guilt and/or confusion as you try to wrap your head around your new reality. But it's also not uncommon to face envy, too, even among the people closest to you.

Psychologists have dubbed the emotional reaction as "sudden wealth syndrome." Recipients may seem irrational or reckless to family and friends. They may feel like the money is infinite, that they're financially invincible. Or they may retreat, overwhelmed by anxiety as they figure out what to do next, particularly if they expect their relationships to change drastically in the wake of a tidal wave of riches.

Figure out who you are now that you don't have to work. This shifting identity can create confusion, but it's also an opportunity to rebalance your time and energy, invest in yourself and your relationships, as well as your community. In short, focus on what's important to you.

It's also likely you'll suddenly find yourself in a social circle comprised of other wealthy families, so take the time to figure out who your real friends are, those who have your best interests at heart and those with ulterior motives. If your windfall is the result of a death in the family, this time may be especially confusing. You may alternate between grief and guilt that you're benefiting from another's misfortune.

Of course, these emotional issues may be easier to handle if you simply acknowledge them, sit with them, spend time considering what is real and what is perception. Take the time to name your concerns. It's common for those thrust into this position of responsibility to wonder how it'll affect their children, particularly those who are less trustworthy, or wonder if they've just become targets for predatory people seeking to take advantage of their newfound wealth. You may be concerned about how to be a good steward when it comes to significant wealth, how to make the most of the opportunity in front of you and what to do next. Should you benefit your children, a charity you believe in, build a business or an entrepreneurial empire? The possibilities are seemingly endless. So you'll need an experienced sounding board to help you move forward. We'll get to that in a moment.

After you've processed all that, then – this is what you've likely been waiting for – splurge. Set aside some "play" money and indulge. You'll want to earmark just enough to treat yourself to something you've been dreaming of, say a vacation, but not enough to jeopardize your financial security. The amount really depends on your comfort zone and the size of your windfall. If something catches your eye in the meantime, add it to your wish list to consider later as part of a more disciplined financial plan.

Americans spend close to $70 billion a year on lottery tickets.

Next, reassess. Yes, the adjustment period can take a few months or years (it's different for everyone), but it's wise to touch base with your professional team at least once a year to review how you're doing with your new financial reality. This is when you can start making decisions on how to best deploy the money. And this is when it starts getting fun. You get to set goals: choose if you want to retire, buy a second home, benefit causes you hold near and dear, or make sure your children and grandchildren have everything they need and most of what they want (within reason, of course!). The objective is to create a clear, practical plan that preserves your wealth and your sanity.

On the practical side

Now that fortune has smiled upon you and you've ridden the ensuing emotional roller coaster, you're ready to make smart choices about wealth management and preservation. Work with your team to sort through the myriad tax, financial and legal questions that will pop up and to offer objective guidance as you put a plan in place. You'll want to look for estate attorneys, insurance experts and accountants with experience dealing with affluent families, who'll understand the pressures you're facing and help you manage the significant responsibilities that come with significant wealth. Should you find yourself in an even loftier position, consider also hiring a security guard and privacy experts to keep you, your information and your property safe.

This team is important, so take your time to check references and vet them properly. They'll be the ones to serve as gatekeepers to fend off unscrupulous people and help you say no when you need to. They'll be the ones to help you decide if a trust, and what kind, is the right vehicle to protect your wealth and may even be able to serve as an objective trustee to ensure distributions are made wisely. Too many believe the windfall well will never run dry, but, of course it can. There are countless stories of those who lost their winnings to overspending, overwhelming debt or fraud (see examples, next page).

An insurance broker will work with your advisor to help you manage risk at a much higher level. It may make sense to acquire an umbrella liability policy to protect against lawsuits, for example. A great accountant will help you figure out how to take ownership without giving Uncle Sam an unnecessary windfall, too. An estate attorney will help you think beyond today to ensure your heirs and charitable causes will benefit, too, and that your wishes are properly documented.

Next, do the math with your team. Figure out whether a lump sum payout or an annuity makes sense for you (if applicable), what you might owe in taxes, how much liquidity you really need and how your estate plans may need to change. Afterward, you'll know how much you'll have and what you can comfortably spend each year without running out of money.

You'll also need to decide how you want to rearrange your financial goals and investments. A comfortable retirement may be a given now. Other goals may no longer be relevant if you want to focus on wealth preservation or sustainable income rather than growth. All this may mean breaking a lifetime of financial habits and adapting to a new investment strategy.

New asset allocations may be in order, and you may need specially designed vehicles, such as a trust or personal foundation, to ensure your wishes are honored. That extends to codifying your estate plans, too. If you don't already have them, don't wait any longer. Everyone needs the standard array of legal and medical documents – wills, living wills, medical and financial powers of attorney. While you may feel like the same person, your financial status is not, so you may need a few more sophisticated estate planning documents, like irrevocable trust documentation for children and grandchildren, limited partnerships or even a family limited liability company. Remember that team you assembled when you first found out that your life was about to change? You'll need them here, too, to help you rebalance your portfolio and your life, reorder your goals and find tax-advantaged strategies that will help you work toward accomplishing your financial objectives.

Enjoy your new beginning

These tips can help just about anyone going through a major life event, although the details will vary according to your personal situation. And while managing significant wealth does come with significant responsibility, it is important to remember that it can be so much more than that. It's an opportunity to make your dreams come true, if you keep your wits about you and trusted advisors on speed dial.

78% of National Football League (NFL) and an estimated 60% of National Basketball Association (NBA) players go bankrupt or have financial difficulties within five years of retirement.

Source: Sports Illustrated

Rags to riches and back again

Many of us dream of a sudden windfall. Nice problem to have, right? But those who have gone before offer cautionary tales of dreams come true turning into living nightmares, as poor decisions prompt the loss of wealth, family, friends and, in some cases, health. There are lessons to be learned here.

Lesson No. 1

Avoid too many large purchases

One West Virginian won a **$315 million Powerball lottery** in 2002. He made a valiant effort to do good with his winnings, establishing a foundation and giving millions to charity. He was later robbed of more than $700,000 and had spent most of his winnings by 2007.

Another young man won **$27 million in 2001**, while unemployed. Lavish spending, including a mansion, racehorses, a jet, several businesses and a Lamborghini, quickly chipped away at his winnings. He and his wife succumbed to substance abuse. A few years later, he was living in a storage unit.

One Briton's hard-living, post-lottery lifestyle burned through the equivalent of **$15 million** in four years. The lavish parties, villas in Spain, luxury vehicles and flashy jewelry all went away almost as quickly as it came.

Lesson No. 2

Be wary

A Floridian hit a **$30 million** jackpot in 2006. Hounded by friends and family, he retreated and put his trust in a new friend with ulterior motives. She convinced him to transfer his assets to her and was later convicted of his murder.

Lesson No. 3

Carefully weigh business decisions

In two weeks, one winner spent $300,000 of his **$16.2 million** Pennsylvania jackpot on cars, a restaurant and a plane. One year later, he was $1 million in debt. He was forced to declare bankruptcy.

Lesson No. 4

Get good advice

Even famous athletes fall prey to temptation and financial mismanagement. NBA's Antoine Walker earned more than **$108 million** over his career, but was bankrupt two years after retirement, thanks to bad real estate investments, footing the bill for an extensive entourage and overspending on cars and jewelry. He now counsels other athletes not to follow in his footsteps.

NHL hockey player Jack Johnson, who earned more than **$18 million**, filed for bankruptcy after defaulting on a string of risky loans at high interest rates.

Boxer Mike Tyson splurged on mansions, luxury cars and pet tigers. He owed $9 million in his divorce settlement and $13 million to the IRS. When he filed bankruptcy, he was $27 million in debt.

Asset allocation does not guarantee a profit nor protect against a loss. The process of rebalancing your portfolio may result in tax consequences. There is no assurance that any investment strategy will be successful. Raymond James is not affiliated with Bankrate or Ally Bank.

Sources: *Wall Street Journal*; *Forbes*; *Huffington Post*; "Gambling on the lottery: sociodemographic correlates across the lifespan," U.S. National Library of Medicine/National Institutes of Health; National Endowment for Financial Education; bankrate.com; Scott Hankins, University of Kentucky research; Ally Bank

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