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Learning from entrepreneurial families: managing the shift from the "New Normal" back to the "Old Normal"

Many family companies are extraordinarily successful and the distinctive way they run their businesses is one of the keys to their success. These successful families expect their asset managers to manage their funds differently from that of a typical private banking mandate. Other investors can learn from their approach – after all, this strategy has delivered generations of success for many families.

There are a number of factors that make them not just successful entrepreneurs and investors but leaders in the sector. What sets them apart is their commitment to maintaining a long-term focus, combined with discipline and patience while investing over several investment cycles. The ability to focus on these essentials, to think and act independently and flexibly while accepting controlled risks. The success of many families speaks for itself. Studies show that companies in which families have a significant influence perform better than both listed and private companies. Many of these entrepreneurial principles that serve family companies so well can also be applied to asset management. These families look for the best possible team and demand above-average performance - not just within the cycle, but also in the long-term. When it comes to investing your funds, what good is it to have achieved above-average performance in 2016 and 2017 only to lose a large part of your assets in 2018 and 2019? Being able to pass on the companies and its assets to the next generations is of utmost importance to most entrepreneurial families.

Responsible asset management is currently facing a significant number of challenges. In addition to the most extended bull market we have seen in over a century, the peaks of the economic and corporate earnings cycles and a global interest rate turnaround on the horizon. We are moving from the 'New Normal' to the 'Old Normal'. Liquidity of economies and markets is already worsening.

Are we in the midst of a global bear market as they are clear signs that we are heading that way. Also, there is a vast array of technological innovations encompassing everything from artificial intelligence, fracking, alternative energy and energy storage to medical advances and digitalisation which are changing our economies and societies. One major strength of many family businesses is that they have been successful across generations in times of radical change and upheaval. These families demand high standards and skill from their asset managers who understand the family business mindset.

Despite, or even because of the current challenges, the desire for capital protection remains unchanged. However, strategies that delivered excellent results in the past can now involve substantial risks. Investors must think and act independently and flexibly in order to protect their assets.

Passively swimming with the market and blindly relying on the old tried-and-tested approaches and correlations can be fraught with risk in today's market. Genuine active investing offers the best chance of success while navigating this period.

No family business would allow themselves to be limited by drawing imaginary lines (by a benchmark) or being guided by daily fluctuations (volatility) instead of long-term prospects. As investors, they must also avoid doing this and have the courage and independence to manage our allocation and investment ratio actively. As entrepreneurs and investors, we must use the advantage of being able to say no. We do not always need to be fully invested; it is not necessary to play every hand.

One of the significant advantages of family businesses is that they focus on the long-term growth of their company rather than short-term profit optimisation. This ability to think long-term is also a key factor to success in asset management.

Although it sounds simple enough, this is not always the case. When investing, it is difficult for people to understand just how long cycles can continue. For many, it's tough to hold out for that long. At present, we have been experiencing falling interest rates for the last 35 years and rising stock prices for more than a hundred months. There are more and more claims that things can, will or are going to be different this time around, for example, the experiences of the financial crisis seems to have faded into memory.

This forgetful mindset appears to be the norm at the end of a cycle. To achieve long-term success, it is sometimes necessary to show considerable patience and discipline in implementation – to wait it out and then succeed while swimming against the tide — the fact that it is difficult to counteract the cycle and the consensus and conduct is precisely the reason why there are cycles in the first place. People shape markets and thus through emotions and with many through incomplete information processing.

When people ask, what they can learn from families that have been successful for generations, we would have to say: think long-term instead of wobbling short-term. Find solutions for all of your liquid assets instead of putting a small proportion to work for you, set achievable targets instead of maintaining unrealistic expectations, diversify instead of gambling. Also, interact with the markets with a steady hand and humility rather than recklessness, define processes rather than shooting from the hip, and find your own way, solution and team. Put these building blocks in place for calmness, consistency and lasting success. It will simplify your fortune and give you a better life and performance.

Andreas Lesniewicz co-founded the Salmuth Family Investment Office CONREN in 2004. Coming from a family of entrepreneurs himself, Andreas has consulted entrepreneurial families and their companies in investment and operational matters for more than 15 years. He studied business administration & commercial law at the Otto-Friedrich University Bamberg, Bavaria; combined with guest stays at Harvard University, Cambridge, and Columbia University, New York. His specialisations were finance and auditing. After graduating, he worked in corporate finance in Frankfurt.