Amazing Facts that Prove Inheritance is Mostly Overrated as a Reason for Wealth

BY RAINER ZITELMANN

Is inheriting the family fortune really the easiest way to become a millionaire or, better yet, a billionaire? In the age of self-made wealth, what does it really mean to be born rich? The author explores why having a rich family does not guarantee success and why ordinary people should seize their opportunities.

Perhaps more than ever before, people claim that almost the only way to join the ranks of the rich is through inheritance. Apparently, in the good old days, it was still possible build a fortune from the ground up – but not anymore. Such claims discourage people who have set themselves the goal of becoming wealthy as entrepreneurs or investors. The message, whether explicit or unspoken, is as clear as it is sad: "Don't even bother trying – those days are long gone." There are even so-called classism researchers who criticise the media for reporting on people who have ascended from humble beginnings to become rich. Such articles, the researchers claim, only perpetuate a false illusion that capitalism, in reality, can never live up to.

67% of The Forbes 400 Are Self-Made

Forbes has proved that this is simply not the case. In fact, the opposite is true: In 1984, less than half the people on The Forbes 400 list of richest Americans were self-made. By 2018, in stark contrast, this same figure had risen to 67%! Forbes' analysis is based on a scoring system in which each member of The Forbes 400 is given a score on a scale from 1 to 10. A "1" is awarded to people who have inherited their entire fortune and have done nothing to increase their wealth. A "10" means that someone has pulled themselves up by their bootstraps to build their incredible wealth in the face of substantial obstacles. Anyone on The Forbes 400 who merits a score of between "6" and "10" is rated as having truly made it on their own.

The Buddenbrooks: An Exemplary Tale

The importance of inheritance is overestimated because, in reality, most heirs are unable to preserve let alone expand their assets. In 1901, the German writer Thomas Mann published one of his most celebrated novels, *Buddenbrooks: The Decline of a Family*, which tells the story of how a rich merchant family, the Buddenbrooks, slowly but surely squandered its fortune over the course of four generations. As is so often the case, fact mirrors fiction, as demonstrated by the scientists Robert Arnott, William Bernstein and Lillian Wu in their research paper "The Myth of Dynastic Wealth: The Rich Get Poorer." Their key findings include the following: "The average wealth erosion for the 10 wealthiest families of 1930, 1957, and 1968… was 6.6 percent, 5.3 percent, and 8.7 percent, respectively.

Great Ideas and Personality Traits are Not Necessarily Passed on to the Next Generation

One glance at the list of the richest people in the world is enough to see that the vast majority – insofar as they have not inherited their wealth – have earned their fortunes as entrepreneurs. And according to the findings of entrepreneurship research, successful entrepreneurs become rich because they have a very specific combination of personality traits. However, these personality traits cannot simply be passed on to the next generation. The superrich became rich because they had incredibly good ideas. Why is it that Jeff Bezos, Bill Gates, Mark Zuckerberg, Sergej Brin and Larry Page are among the richest people in the world? Because they had great ideas, founded Amazon, Microsoft, Facebook and Google and knew how to turn them into extremely profitable companies. It's very unlikely that their children will have the same personality traits or such brilliant ideas.

The Secret Weapons of the Superrich?

Left-wing economists, such as the Frenchman Thomas Piketty, believe that the rich have access to particularly profitable investments – some would even call them a license to print money – which allow them to automatically increase their wealth even without their own entrepreneurial ideas. Just like left-wing anti-capitalists, family offices that earn their money by promising to increase the wealth of rich families have a vested interest in maintaining the myth that there are secret, extremely lucrative investment opportunities that are reserved only for the superrich. This is, after all, the basis of their entire business model. But there are very good reasons to doubt that this is the case. It is more likely that most of these exclusive asset managers deliver even worse results for their superrich clients than an average investor would achieve by investing in an index fund. For example, hedge funds have enjoyed an almost legendary reputation as the super-secret weapons of the rich for many years. And yes, some hedge funds have achieved extremely high returns, for which they have received a great deal of celebratory media attention. On average, however, they have performed worse than an index fund that absolutely anyone can buy on the internet. In 2007, Warren Buffett entered a million-dollar bet with fund manager Protége Partners that the S&P 500 Index would outperform a portfolio of hedge funds over the next ten years. Buffett was right and donated his winnings to Girls Incorporated of Omaha. The S&P 500 Index fund in which he invested delivered a compound annual return of 7.1%, outperforming the return on the funds selected by Protégé Partners (2.2%). The extent of the difference is really put into perspective when you compare the actual monetary returns: Anyone who invested a million dollars in hedge

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There are countless examples that show just how difficult it is to manage an inheritance. Many heirs have more in common with lottery winners who, by a stroke of luck, win massive fortunes, but lose them again because they lack the requisite skills to handle money.

funds before 2008 would have made a profit of $220,000 by 2017. S&P 500 investors, on the other hand, would have collected $854,000. So much for the supposed license to print money and "secret weapons" of the superrich.

How People Inherit Money and Lose it Again

Many rich heirs could actually live very well off their inheritances if only they followed the advice Warren Buffett has already given his wife for when she inherits (a minor part) of his fortune: Simply invest the money in an index tracker fund. But most people think they are smarter and believe they can make particularly canny investments – which all too often turn out to be flops. Or they inherit a company but do not have the entrepreneurial talent of their predecessors. Others overestimate themselves, start new companies and lose money. Still others go through expensive divorces or simply spend far more each year than their inheritances would sensibly allow. There are countless examples that show just how difficult it is to manage an inheritance. Many heirs have more in common with lottery winners who, by a stroke of luck, win massive fortunes, but lose them again because they lack the requisite skills to handle money.

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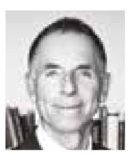
Welcome to the Self-Made Billionaires' Club, Jay Z

In reality, the chances of getting rich, even at a young age or as someone who comes from a humble background, have never been so good. Recent headlines have trumpeted the fact that Jay Z, who was raised by a single working mother, has become the world's first hip-hop billionaire and the latest member of the Self-Made Billionaires' Club. Of course, very few people will ever make it quite so far. But what helps more? Telling someone "You have no chance anyway. If you don't inherit money, you'll never get rich," or, "Forget it! Capitalism only makes the rich even richer." Or saying, "You probably won't become a billionaire, but look at the people who started out at the very bottom and made it to the top. Seize your opportunities!" EFR

Featured Image: From left to right are Jeff Bezos, Bill Gates, Mark Zuckerberg, Sergey Brin and Larry Page.



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