Too Much, Too Soon: How to Avoid Sudden Wealth Syndrome

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http://www.huffingtonpost.com/irvin-g-schorsch/sudden-wealth-syndrome_b_1652701.html

It is an affliction many long to have. It strikes lottery winners, first-round NBA draft picks, and overnight IPO millionaires alike. Sudden Wealth Syndrome is a term coined by psychologist Stephen Goldbart to describe the stress, guilt, social isolation and confusion that often accompanies a giant windfall.

While coming into money ought to be a good thing, it can take a bad turn. Many who find sudden fortune become overwhelmed and start to overspend, grow suspicious of those around them and make poor decisions that lead to familial and financial ruin.

For these reasons, whenever I see a client who has suddenly become wealthy, I insist that we take things slowly and recommend they deposit their newfound wealth in a safe, insured account with an independent custodian or bank.

As with any life change, a sudden shift in financial status can be traumatic. Therefore, care should be taken not to rush into any big decisions for at least several months. It's important to take time to process the life change, so that you can have a clear head and make decisions that will serve you well in the long run.

Sudden Wealth Syndrome expert Stephen Goldbart and his associates at the Money, Meaning & Choices Institute say that much like the four stages of grief, there are four stages people go through when coming to terms with their new wealth:

Honeymoon: Like the honeymoon phase of a love relationship, people who first come into money feel powerful and invulnerable. Many go on spending sprees, buying things and making risky investments (often with disastrous results).

Wealth Acceptance: In this stage, the view of oneself as powerful and invincible is mixed with a sense of vulnerability and the realization for the need to set limits.

Identity Consolidation: During this stage, people accept that they are rich, but realize that their money doesn't define them. They begin asking: "Who do I want to be?"

Stewardship: In this phase, people have reached a mature resolution of what their money means to them and have a plan for what to do with it in terms of a personal, familial and philanthropic mission.

The first step the newly wealthy need to take is to find a trusted financial adviser –—and possibly a therapist –—to guide them through these stages and help them avoid the common psychological and financial pitfalls.

I start by discussing their hopes and plans for the future and how this money can create options and facilitate their dreams. Then, we establish a lifestyle expense overview so that they get to see their overall financial picture and compare and align sources of revenue to their expense profile.

Over the course of several sessions, we identify their core values, what they wish to change about their lives as well as the legacies they want to leave for their children and their charities.

Based on their vision, goals and values, we draw up a budget that takes into account the cost of maintaining their desired new lifestyle and pursuing their personal and philanthropic endeavors. We test a variety of performance assumptions, interest rates, inflation factors, tax scenarios and time horizons to see how they would collectively affect the nest egg.

The idea of relying on a lump sum of money can cause panic in and of itself. To provide my clients with peace of mind, we draw up a strategy that encourages them to live on the proceeds without touching the principal and set up a system in which money from their custodial, bank or brokerage account is deposited into a checking account each month just like a paycheck. The goal is to smooth out the income flows to complement and support the client's desired lifestyle.

This planning and budgeting process is extremely important as it defines necessary boundaries and provides clients with a sense of structure. Often, once a client sees how much their desired lifestyle or endeavor will cost and how it will be funded, they're better able to adapt to their new financial reality and view the money as tangible and finite. This helps them set priorities that makes it easier for them to say "no" to lavish, frivolous spending or requests for large gifts to friends, relatives or charities that are inconsistent with their budget, vision and values.

Taking this reasoned approach helps the "instantly wealthy" adapt to their new circumstances and get to that desired fourth stage where they become a responsible steward of their wealth. At the same time, clients learn to grow their nest egg and leverage it as a tool to serve themselves, their families and the world at large.

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