

## FREE PREVIEW

12 pages of the full 212-page guide - not the paid edition

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### FREE SAMPLE CHAPTER

BARATELLI INSTITUTE - PRACTITIONER GUIDE SERIES

# Wealth Psychology

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*Behavior - Family Dynamics - Decision Architecture*

#### SAMPLE CHAPTER IN THIS PREVIEW

Chapter 9 -- The First Generation's Inheritance Problem (the Builder)

12-page preview - drawn from the 212-page full guide

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### BARATELLI INSTITUTE

Founded by Philip A. Baratelli, CPA, MBA

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MENTORING AT SCALE

## ABOUT THIS FREE PREVIEW

# Wealth Psychology, Free Preview

Wealth Psychology is the 212-page practitioner reference on the inner game of capital -- how high-net-worth individuals actually think, the behavioral biases that operate at the highest stakes, the advisor-principal relationship, family money dynamics, next-generation preparation, governance as psychology, decision-making frameworks under complex wealth, the crisis-and-loss response under financial stress, and the three-generation arc that the 2026 rebuild added (the Builder, the Inheritor, the Restorer). Twelve chapters plus a Behavioral-Bias Quick Reference, the Difficult Conversations Library, an Advisor-Side Biases Addendum, and cross-chapter practitioner discipline addenda. Cited cover-to-cover.

This free preview gives you the cover, the table of contents, a generated Reading Map by Role (the source guide does not include one, so this preview generates one in the library style), and one complete chapter -- Chapter 9, The First Generation's Inheritance Problem (the Builder). It opens the three-generation arc that the 2026 rebuild centered the back half of the guide on; the founder who created the wealth is the first link in any transition problem, and the Builder chapter is the strongest single-chapter teaching unit in the post-rebuild back half.

Read it the way a family member or a long-tenured advisor would: find your role in the Reading Map, then read Chapter 9 and ask whether the Builder seat at the family table you serve has actually been understood -- and whether the transition plan you have on file treats the Builder as the protagonist of the transition or as a passive figure to be worked around.

## WHAT YOU GET IN THIS PREVIEW

Cover - About This Preview - Table of Contents - Reading Map by Role - one full sample chapter

*Sample chapter: Chapter 9 -- The First Generation's Inheritance Problem: the Builder (the founder who created the wealth)*

The full guide is available at [baratelliinstitute.com](http://baratelliinstitute.com). Single-user license; not for redistribution.

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**WHO THIS GUIDE SERVES**

# A Reading Map by Role

Wealth psychology is multi-disciplinary: the wealth principal, the principal's spouse, the next-generation heir, the family-office director, the long-tenured advisor, and the clinical practitioner each enter the same family system from a different position with a different question. Find your role below and read the chapters that match your seat first; the rest of the guide is built to be read in any order.

**You are...**

**Read in this order**

**First-generation wealth principal (the Builder)**

- Ch 1 - The Psychology of Wealth
- Ch 2 - Behavioral Biases in High-Stakes Decisions
- Ch 6 - Governance as Psychology
- Ch 9 - The First Generation's Inheritance Problem
- Ch 12 - Mental Models for Multi-Generational Preservation

**Next-generation heir (the Inheritor)**

- Ch 4 - Family Money Dynamics
- Ch 5 - Next-Generation Preparation & Wealth Readiness
- Ch 10 - The Second Generation's Choice (the Inheritor)
- Ch 7 - Decision-Making Frameworks
- Ch 8 - Crisis, Loss & Behavioral Response

**Third-generation heir (the Restorer)**

- Ch 11 - The Third Generation's Test (the Restorer)
- Ch 5 - Next-Generation Preparation & Wealth Readiness
- Ch 4 - Family Money Dynamics
- Ch 12 - The Long Game: Multi-Generational Preservation

**Family-office director / governance lead**

- Ch 6 - Governance as Psychology
- Ch 3 - Advisor-Principal Dynamics
- Ch 4 - Family Money Dynamics
- Ch 7 - Decision-Making Frameworks
- Ch 8 - Crisis, Loss & Behavioral Response

**Long-tenured advisor (CFP/CFA/CPA/attorney)**

- Ch 3 - Advisor-Principal Dynamics
- Ch 2 - Behavioral Biases in High-Stakes Decisions
- Adv-Side Biases Addendum
- Difficult Conversations Library
- Ch 8 - Crisis, Loss & Behavioral Response

**Clinical practitioner working alongside the family**

- Clinical Distinction (Front Matter)
- Ch 1 - The Psychology of Wealth
- Ch 4 - Family Money Dynamics
- Ch 8 - Crisis, Loss & Behavioral Response
- Practitioner Discipline Addenda

## CHAPTER 9

# The First Generation's Inheritance Problem

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*The Builder — what the wealth creator wanted, what actually happened, and the failure mode of never having the conversation.*

*A NOTE FROM PHIL*

## Why They Don't Go Sit on the Beach

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One of the most common questions I have been asked over the years is some version of this:

*"If I had that much I would go sit on the beach. Why do they do that?"*

I now know the answer. **People achieve to the level of their peer group. People that have family offices have different peer groups. That is who they measure themselves against — not any societal norm. Business is a game at those levels.**

The beach question presumes that money's purpose is rest. At a certain level of wealth and a certain composition of peer group, money's purpose is participation — in the game, with the peers, at the table the peers are at. Selling the operating company at fifty so you can sit on the beach is, to a peer group of acquirers and builders, the equivalent of leaving the room.

Understanding this is the conceptual key to almost everything else in this guide. The advisor who plans for "retirement" the way a magazine cover defines retirement will mis-plan for the wealth-level family. They are not retiring. They are repositioning. The game continues. The peers continue. The measuring continues. The role of the advisor is to figure out which positions in the next phase of the game the principal wants to play, and which they can credibly walk away from.

You are not advising a person who wants to stop. You are advising a person whose peer group has not stopped.

— *Phil*

Founder, Baratelli Institute · May 12, 2026

## THE BUILDER

# What the Wealth Creator Wanted, and What Actually Happened

*The first generation in the shirtsleeves arc — how the founder's strengths become the family's structural problem at the moment of transition.*

## Where the Three-Generation Pattern Comes From

The proverb is old and global. *Shirtsleeves to shirtsleeves in three generations* in American English; *clogs to clogs* in Lancashire; *rice paddies to rice paddies* in Japan; *dalle stalle alle stelle alle stalle* — from the stables to the stars to the stables — in Italian. The pattern is human, not American, and the cross-cultural redundancy is what tells us it is real.

The contemporary practitioner-research baseline is the Williams Group study summarized in Roy Williams and Vic Preisser's *Preparing Heirs: Five Steps to a Successful Transition of Family Wealth and Values* (Robert Reed Publishers, 2003). Williams and Preisser tracked more than three thousand families over two decades and reported that roughly seventy percent of post-transition wealth was dissipated by the end of the second generation and roughly ninety percent by the end of the third. James E. Hughes, Jr., reaches the same conclusion from a different angle in *Family Wealth: Keeping It in the Family* (Bloomberg Press, revised 2004) and *Family: The Compact Among Generations* (Bloomberg Press, 2007). Subsequent practitioner literature from the Family Firm Institute and the FFI Practitioner has not meaningfully revised either the magnitude or the underlying mechanism.

*“Seventy percent of post-transition wealth is gone by the end of the second generation. The cause is not the market. The cause is the family.”*

— Philip A. Baratelli

## What Specifically Goes Wrong

Williams and Preisser disaggregated the failure causes in the families they studied. The distribution is consistent and is the most important single chart in family-wealth practice:

Cause of post-transition wealth dissipation	Share
Breakdown of communication and trust within the family	60%
Inadequately prepared heirs	25%
All other causes (tax, legal, market, professional failure) combined	15%

Source: Williams & Preisser, *Preparing Heirs* (2003), summarizing the firm's longitudinal study of 3,250 families.

The chart re-frames the entire engagement. Eighty-five percent of the failure mode is human. The remaining fifteen percent — tax structures, investment performance, professional execution — is where the conventional wealth-management industry concentrates almost all of its attention. The discipline of wealth psychology exists because the eighty-five percent is where the actual outcomes live.

## The Builder's Failure Mode: Never Having the Conversation

The wealth creator typically built the fortune through a posture of independence. The early years required the founder to bet on her own judgment when no one else would. The decades of operating taught her

reinforced the lesson: the people around her did not see the business the way she did, and the protection of her own clarity was the protection of the enterprise itself.

These traits build wealth. They also make the founder structurally unsuited to the conversation the family needs her to host. The conversation in question is not technical. It is the conversation about *what this wealth is for*, conducted with the people who will inherit it before the founder is gone. Hughes calls it 'the compact among generations.' Williams and Preisser call it 'preparation.' The empirical evidence is that the single best predictor of post-transition wealth retention is whether this conversation happened on the record, more than once, with the heirs in the room.

The founders who do not have the conversation share a small number of recurring reasons. Privacy — *my financial life is no one's business, including my children's*. Protection — *they don't need to know the numbers; it will only spoil them*. Control — *as long as I'm alive, the decisions stay with me*. Time — *we'll do the family meeting next year, when the deal closes / when my health improves / when the kids are older*. The next year does not arrive. The conversation does not happen. The transition occurs anyway, on a timeline the family did not choose, and the heirs inherit both the wealth and the absence of context for it.

## The Pattern Case: The Business Sold Without the Conversation

A pattern recurs often enough across practitioner caseloads that it deserves its own name. The founder builds a closely held business over three or four decades. A strategic acquirer appears. The transaction closes inside a calendar year. The proceeds — net of tax — are wired into a brokerage account whose statement is the first time anyone in the family has seen a comma-separated number of that size. The founder hires a wealth-management firm. The wealth-management firm allocates the portfolio. Nine to eighteen months later the founder is restless, the children are confused, and the family's relationship to its own wealth is more anxious than it was when the asset was illiquid.

What happened is the absence of the founding conversation. The founder never said, on the record, what the proceeds were *for*. The children did not know whether the sale was a windfall, a stewardship event, or the beginning of a planned multi-generational structure. The wealth manager did not know what success looked like beyond a risk-adjusted return number. The estate attorney drafted documents that minimized tax at the next transfer event without knowing the family's actual purpose. Every party did its narrow job competently. The engagement failed at the architectural level because no one had been asked to author the architecture.

*“The most expensive sentence in family-wealth practice is the one the founder intended to say, planned to say, and never actually said.”*

— Philip A. Baratelli

## What the Builder Wanted — A Composite

In the practitioner interviews that follow successful transitions, the founders consistently describe a small number of wants that the structures rarely encoded. They wanted the children to *do better than survive on the money*. They wanted at least one grandchild to feel a sense of obligation to the wealth and the values that built it. They wanted the family to stay in the same room at major decisions. They wanted a philanthropic identity that connected the money to something the family could be proud of in conversation. They wanted the next generation to be competent enough to keep professional advisors honest. They did not, generally, want ‘maximum after-tax wealth transfer.’ The structures they paid for were optimized for the latter.

This is the central diagnostic question for the builder while there is still time to ask it: *what do you want this wealth to do that the documents you have already signed are not designed to accomplish?* The answer is almost always non-financial. The structures required to deliver the answer almost always need to be built before the transition, not after.

## The Advisor's Job With the Builder

The advisor working with a first-generation principal in the years before transition has a small number of high-leverage tasks. First, host the conversation the founder will not host herself: get the heirs in the same room, on the record, with the founder describing what the wealth is for. Second, document the founder's actual purpose in a form the children can read after the founder is gone — a written values statement, a recorded interview, a letter to future generations. Third, audit the existing legal and investment structures against the documented purpose and surface the gaps. Fourth, introduce next-generation family members to the advisory team while the founder is still in the room to vouch for the relationship.

These tasks are uncomfortable. They confront the founder with mortality, with the limits of her own control, and with the gap between what she wants and what she has structurally arranged. The advisor who is willing to be uncomfortable on the family's behalf is doing the highest-value work in the

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## Closing the Chapter

The first generation's problem is not that the founder did not love her children. The problem is that she built a fortune through traits that make the conversation her children need her to have nearly impossible for her to host on her own. The next chapter follows the wealth into the hands of the people who inherit it: the second generation, the pivot, the generation whose choices determine whether the proverb holds for this family or breaks.

## CHAPTER 9 QUICK REFERENCE

# The Builder — Diagnostic Checklist

*Use with a first-generation principal in the years before a planned transition or liquidity event. The questions are diagnostic; the answers are the work.*

Question	Status
Has the founder said, on the record and to the heirs, what the wealth is <i>for</i> beyond 'the family'?	Yes / Partial / No
Is there a written values statement or recorded interview that the children can read after the founder is gone?	Yes / Partial / No
Have the existing legal and investment structures been audited against the founder's actual stated purpose?	Yes / Partial / No
Are the next-generation heirs known to the family's professional advisory team?	Yes / Partial / No
Has the family rehearsed a generational transition once, on a low-stakes decision, with the founder present?	Yes / Partial / No
Is the founder's philanthropic intent documented with the same care as the estate plan?	Yes / Partial / No
Does the founder understand that 'maximum after-tax wealth transfer' is not the family's actual stated goal?	Yes / Partial / No

Three 'No' answers or more is the threshold at which a structured founder-conversation engagement should be initiated before any further transition planning.

**END OF FREE PREVIEW**

# Decide. Act. Now.

What you just read is one chapter of twelve. The full guide takes the same level of care into the psychology of wealth as identity (Ch 1), the behavioral-bias toolkit at high stakes (Ch 2), the advisor-principal trust architecture (Ch 3), family money dynamics, conflict, and entitlement (Ch 4), next-generation preparation and wealth readiness (Ch 5), governance as psychology (Ch 6), decision-making frameworks for complex wealth (Ch 7), the crisis-and-loss response (Ch 8), the Inheritor and the Restorer chapters that complete the three-generation arc (Ch 10-11), and the long-game mental models for multi-generational preservation (Ch 12).

The end-matter is itself a working reference: the Behavioral-Bias Quick Reference, the Difficult Conversations Library, the Advisor-Side Biases Addendum, and the cross-chapter Practitioner Discipline Addenda that the 2026 committee review added.

If you sit at the family table -- principal, heir, advisor, family-office director, or the clinical practitioner alongside any of them -- this is the reference. The technical wealth-planning literature handles the structures; this guide handles the humans who have to actually live inside them.

**GET THE FULL GUIDE**

## **Wealth Psychology Decoded, 2026 Edition**

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