

Investment

Most affluent people only seek to appreciate their wealth, but the money can be used more meaningfully

When you land in a situation where you have more money than you can reasonably spend during the rest of your life, it is a good idea to put the money to good use.

Petr Kain

Affluent people often behave irrationally. On the one hand they are afraid of losing their wealth, yet the fear often leads them to invest in dubious and risky instruments promising high returns. And such investments often end badly, says Štěpán Lacina, a partner at Accredio, a manager affluent people entrust with a portion of their assets. He adds that the Czech Republic has generated a large number of genuinely rich people in the last 30 years. And it would be nice, he says, if, one way or the other, they gave back to the country.

How do wealthy people who have sold their business for tens or hundreds of millions of crowns usually envision the wealth they have accumulated should be used?

Mostly they focus on preserving and increasing their wealth. But I find it increasingly intriguing to discuss various

ways of converting their assets into other meaningful values with them. Because money can do an awful lot of good things. When you run a business you cannot afford to think more than one or two years ahead. You have costs to take care of, you have to keep an eye on cash flow and so on. But when you sell a business that generates a large amount of money you suddenly get the chance to think in essentially unlimited time frames. You can postpone the yield of your project beyond the 10-year horizon. You can get down to doing meaningful things.

When you talk about meaningful values, do you mean philanthropy?

A typical example of what I am talking about is the venture of Avast's Ondřej Vlček, who is building a hospice for children in Prague. A beautiful philanthropic project now, it can easily

become a business in the future. In 20 years or so this could be a cash-generating network of palliative care centres. You could never pursue such a worthy project with so-called regular money. The bank would either not lend you the money at all or would naturally ask you to start paying it back immediately. Of course I cannot authoritatively tell anyone what to do with their money, but I find this venture awesome. When you land in a situation where you have more money than you can reasonably spend during the rest of your life, it is meaningful to start creating something as valuable as what Mr Vlček is doing. He is not the only one; Dalibor Dědek of Jablotron and RSJ Group's Libor Winkler are thinking about their wealth in much the same way. The latter is investing in biomass in Ukraine. While not exactly philanthropy, the project is an



Štěpán Lacina

- Graduated from the University of Economics in Prague and the Business College of Colorado State University, USA.
- Served as Head of Private Banking at Citibank between 2001 and 2003. One of the main partners at Accredio since the Group's inception. As Sales Director, he is responsible for the creation and execution of sales processes and client relationships. He is also involved in the design of the Group's marketing strategy.

example of an investment that would be hardly manageable with short money.

You have been in the money management business for several decades. Is there a growing number of entrepreneurs who are thinking about their wealth in a similarly enlightened way?

Not really, and that is probably perfectly normal. Most affluent people primarily want to appreciate their assets; this applies both in this country and all over the world. People with this enlightened mindset usually come from the second or third generations of business families. But it is a shame. The Czech Republic has generated a lot of genuinely affluent people over the last 30 years. The vast majority of them did not get rich just because they were entrepreneurial prodigies, but because they were lucky and happened to be in the right place at the right time. It would be nice if they could give back to the country somehow.

When you try to convince wealthy people to invest some of their assets with you, what do you tell them?

In fact, I would not say we are the ones to go to when you want to invest your money. I think of an investment as something one expects to appreciate significantly, whereas what we do is wealth management. In the vast majority of cases, we invest the funds we manage in corporate bonds. Strange as it sounds, Accredio won't earn you much money. Major appreciation is always associated with great risk and we are not going for that. We do not promise people that we can double their wealth. What we can promise to them is solid interest on their money every month, and this can go on for 20, 30 or 100 years. So we are primarily trying to make sure that people do not lose money.

That is probably wealthy people's main concern, right? They prefer not losing their assets to doubling them.

Most people experience both these conflicting motivations at once. On the one hand they do not want to lose their wealth, on the other hand they often behave irrationally and buy junk bonds in an effort to make a lot of money.

Is it not strange that people who have managed to build companies worth hundreds of millions of crowns behave as irrationally as you describe?

Paradoxically, it is the fear of losing money that drives them to do so. Consider the huge inflation we have suffered in recent years. Seeing how massively inflation has eaten into their savings recently, they try to recoup the losses. I think that is a big mistake because they have to take major risks. The desire to preserve their wealth simply clouds their minds. The intellect shuts down and emotions prevail. And that often ends up badly.

Do clients frequently come to you wanting to withdraw a substantial portion of their money and put it into bitcoin, for example, because they have heard it is a great investment?

Not at all, actually. I do not want to brag, but it is probably also because I took my time to explain to them that it made no sense to take hasty steps. This was evident in all the crises, such as the credit crunch of 15 years ago or, most recently, the covid pandemic. Bond prices crashed then, but fortunately almost no one ran away from us. And if they did, it was only after the market recovered. They realised they could not take it. For example, I had a client who lost her parents in a plane crash and inherited tens of millions of crowns. The girl was very worried about the money, not because of the money itself. She got hold of her wealth through such a huge tragedy and she would be sorry for the rest of her life if she lost it. She suffered greatly when her portfolio lost value during the pandemic. When its value eventually returned to its original level, she thanked me for guiding her through the valley of death, but in the end she preferred to withdraw the money and put it in a time deposit in the bank.

Do you really only invest in bonds?

We have also invested a little in US blue chip stocks, but that investment accounts for a negligible portion of the wealth we manage. The age of our clients also has a role to play in this: most of them are over 60 years old. And you may know the

golden rule that if you subtract your age from one hundred, the resulting number is an indication of what percentage of your portfolio should be kept in stocks. The older you get the more conservative you should be when investing.

How challenging is it to convince a client to let you manage part of their assets?

It takes months or years. It took me five years to finally persuade a man from Ostrava. If I have good references from the client's law firm, or maybe an M&A boutique that did business with the client, it can be done in a few months.

I am asking because Accredio had difficulties getting off the ground at its inception, and it took a relatively

long time to finally convince a few clients and begin making money.

Correct. I was not even thirty when my friends and I decided to start a business managing the assets of wealthy people. I left my position as head of private banking at Citibank because of this. I lived in Malá Strana, drove a convertible and had hundreds of thousands of crowns saved up. I started visiting wealthy businessmen and persuading them to let us take care of some of their assets. All they had to tell me was that I must be out of my mind. A year had passed and we didn't have a single client. I left my flat in Malá Strana, moved in with a friend in Žižkov, bought a mattress in Ikea and slept in his kitchen. I figured I could hold out for six months. I ended up living like this for three years. I wore a jacket and tie for a week, went to the Lucerna Music Bar on Fridays, bought a bottle of cheap red wine, woke up Saturday morning with a headache and went to the mall to buy Chinese noodles because that is all I could afford.

Quite a formative experience, wasn't it? The realisation that life can be such a roller-coaster.

Sure. The most important thing this taught me was to value every client who entrusts me with their money. I suppose the experience has shaped the way we handle money, making us extra careful.

When wealthy people see what a dent inflation has put in their wealth in the space of just a few years, they try to recoup the losses. It is a big mistake.