Unlocking Generational Wealth: 8 Strategies for Long-Term Financial Stability

Story by Angela Mae • Jun 5

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Generational wealth is wealth — often in the form of assets — that gets passed down to the next generation with the goal of creating opportunities and financial stability for one's descendants. For many people, building [generational wealth] is about creating a legacy for their children, grandchildren, and so on to build or expand upon and use to thrive financially.

Building generational wealth isn't always easy, especially for those who are starting out with nothing. But if you're looking for ways to establish sustainable, long-term wealth for the next generation and beyond, there are several things you can do. Here are some of the best ways to get started.

1. Diversify Your Investments

"High-net-worth investors develop a plan that meets their risk/return profile, diversify their investments across asset classes to protect capital from concentrated downside risk, and remain invested when markets decline as they are long-term investors who know that market timing is impossible," said Craig Redler, a California-based asset protection attorney and advisor to Ora Partners.

So, what kinds of investments should you pursue?

"Those most often noted are stocks and bonds as well as real estate among other alternative investments," said Jim Penna, Senior Manager of Retirement Services & Investment Strategy at VectorVest Inc. "The key is doing it right. Do your due diligence and understand both the long- and short-term effects of your investments."

If you're just starting out, take a moment to assess your long-term financial goals and risk tolerance. Both of these will factor into the types of investments you make as you go. When in doubt, speak with a financial advisor about the best strategy for you and your family.

2. Invest in Real Estate

Property has long been considered a good investment, though there are certain factors you need to consider before purchasing. Things like location, structural problems, and sudden changes in the market can cut into your potential returns. But if you take the time to do your due diligence, this could be a lucrative option.

“Purchasing income-generating properties, such as rental homes or commercial buildings, can provide a steady stream of cash flow and potential appreciation,” said Nick Cantrell, founder and wealth advisor at Green Future Wealth Management. “Like stock and mutual fund investment, real estate investments can receive a step-up in cost basis at death to minimize or eliminate income taxes from inheritance.”

Steve Davis, CEO of Total Wealth Academy, added, “When you will real estate to your heirs, the basis steps up so that they don’t owe any taxes on the equity you have built up over the years. The cash flow remains the same and continues to go up with inflation.”

3. Invest in the Stock Market

Investing in the stock market is another option if you want to build wealth slowly. Many types of stocks exist, each with its level of risk and potential returns, so consider your options carefully. And don’t be afraid to diversify here — after all, doing so can also mitigate risk.

“Start early, take a disciplined approach, and seek guidance from financial advisors as needed,” said Cantrell. “The step-up in cost basis at death that stock investments receive allows inheritors to receive the proceeds with little to no income tax burden.”

4. Create a Trust Fund

A trust fund is a vital part of estate planning, particularly if you want to leave behind certain assets for your loved ones. Trust funds can be simple or complex, but they can make the process of transferring wealth or assets much simpler.

"Trusts come in many forms, but no matter what kind of trust one establishes it will benefit the family when it comes to post-mortem gifting," said Redler. "When a person properly establishes and funds in a trust, ownership of the decedent's property happens quickly, inexpensively, and privately."

No matter what type of trust you want to create, it's generally wise to speak with a professional about how to set one up. "I strongly urge you to seek professional and legal advice on things such as setting up trusts, having a will and clear and complete estate planning in place," added Penna.

5. Get a Life Insurance Policy

Often overlooked but no less important in building long-term financial stability is the life insurance policy. "In addition to the usual assets that you can pass on to your next generation such as a house, real estate properties, or other financial investments, life insurance can be one of the most financially stable ways to guarantee that your life's hard work carries on for generations to come," said Sahang-Hee Hahn, Head of Strategy & Planning at Haven Life.

With the right life insurance policy, you can keep your family financially afloat if something happens to you. This could mean ensuring they can keep their current lifestyle. It could also help them pursue other opportunities in life while building their own wealth.

"If your partner or family cannot continue their lifestyle or pursue their goals following your passing, then their own journey to establishing generational wealth is affected, and in turn, this will affect their dependents," added Hahn.

6. Create an Estate Plan

Estate planning is vital when it comes to protecting your assets and transferring wealth to the next generation. But it can be a complicated process, so it's a good idea to work with a professional.

"You need competent advisors on your team to help you navigate through important tax and estate planning issues," said Redler. Depending on your circumstances, some of the professionals you might want to work with include a financial planner, a tax professional, and a lawyer.

7. Consider a Profit-Sharing Plan

Some companies have a profit-sharing model, which is essentially a retirement plan in which the company owner contributes a certain percentage of the business' annual profits. "I was very fortunate to work for a company early on in my career that offered equity opportunities for employees," said Colbert. "Being there during a time of high growth, I benefited tremendously from my stake of ownership."

Not only can being part of a profit-sharing company be financially rewarding, but it can also be motivating in other ways. After all, your contributions to the company can benefit you in a very direct way.

"Coming from humble rural Texas beginnings, I would not have been able to reach the level of generational wealth for my children had it not been for the innovative incentives and core values of my employer," added Colbert.

8. Enhance Your Family's Financial Literacy

Financial literacy is key to unlocking generational wealth and ensuring your heirs can continue building upon it for many generations to come. "Knowledge is power. The more you know about money, the better equipped you'll be to make sound financial decisions," said Carrie Colbert, CEO of Curate Capital.

But it's not only about educating yourself — it's also about educating your children and grandchildren. "I have read countless statistics about how quickly the next generations to whom the wealth is passed lose it," said Penna. "Don't let that happen. Educate not only yourself but your children on how to manage the wealth they inherit."