



## Wealth Creation & Wealth Preservation

I was reminded of the distinction between **wealth creation and wealth preservation** after reading a report that former Microsoft employee and CEO Steve Ballmer's wealth, had surpassed that of Microsoft co-founder Bill Gates this year.

From 1995 to 2017, Bill Gates consistently held the title of the richest person in the world, largely due to his significant stake in Microsoft. However, over the past two decades, Gates had **diversified his investments away from Microsoft**, allocating a substantial portion of his wealth to the Gates Foundation. Meanwhile, Steve Ballmer, the company's CEO from 2000 to 2014, took a different path by retaining his initial smaller holding and not diversifying. This **focused approach** led him to surpass Gates in July.

Ballmer's **wealth creation strategy** involved maintaining a concentrated and more aggressive investment approach, resulting in about 90% of his wealth being invested in just one stock. In contrast, Gates shifted towards a more **wealth preservation strategy** some time ago.

### The Distinction

**Creating Wealth** - The primary goal is to **accumulate or increase** the value of overall assets, typically by focusing on generating high total returns.

**Preserving Wealth** - The focus is on **maintaining and protecting** the wealth that has already been accumulated. A key challenge in this phase is guarding against the erosive effects of inflation.

Creating wealth and preserving wealth each require **different mindsets and strategies**. Some common wealth creation strategies include:

- 1) Real estate development
- 2) Entrepreneurship
- 3) Employment income
- 4) Private equity / venture capital
- 5) Concentrated equity ownership

In contrast, wealth preservation strategies are generally more passive and focus on allocating accumulated wealth into diversified assets such as global fixed income, annuity products, global listed equities etc.

**Table 1: Summary of Differences**

Primary Focus	Creating Wealth	Preserving Wealth
Risk tolerance	Typically higher	Typically lower
Time horizon	Typically longer	Ideally longer
Portfolio construction	Concentrated	More Diversified
Gearing	Occasionally, yes	Ideally not
Involvement	Active	More passive
Mindset	Total return focused	Loss minimisation focused

Source/s: Seed Investments (2024)

### Both Strategies are Important

Ideally, wealth generated through various methods should, over time, be channeled into building a more diversified investment portfolio. However, as the example of Ballmer demonstrates, this is not always necessary.

### In Conclusion

At Seed Investments, we specialise in advising clients and other advisors on strategies for **preserving wealth in real terms**. The wealth has already been created, and our focus is on preserving it – striving to continue its growth ahead of inflation while minimising risks.



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