

THREE KEYS TO FINANCIAL SECURITY:

Steps Business Owners Must Take in Their Own Financial Lives



While many individuals have successfully navigated the entrepreneurial waters, they often feel adrift when faced with planning for their financial future. The lack of clear guidance or overabundance of conflicting information often lulls them into a complacent state ruled by either fear-driven inaction or an overconfident, false sense of security. Either state is ineffective and potentially dangerous to their long-term financial health. Successful entrepreneurs must banish inaction and overconfidence and take control of the important factors that will have the greatest impact on their own personal financial success.

Obtaining this level of control requires a thorough understanding of the risks and rewards you face. Multi-year planning that incorporates investments, estate planning, risk management and tax minimization planning is a must to unuddle the risks and clarify the course you should take.

Investing Outside the Box: Creating a Customized Global Strategy

It is important to remember that everything matters when creating your own investment allocation. Your risk level, time horizon, liquidity needs and retirement goals are just the starting point. A truly customized allocation should also incorporate your current and future tax planning needs, state of residence, whether certain types of trusts will own some of the investments, and your current business. For example, individuals with extra sensitivity to a particular sector may do well to avoid that area in their overall allocation in order to reduce the risk in their “total financial picture.”

Furthermore, today’s global economy does not bode well for overly provincial investment strategies. An allocation of just large domestic companies and some bonds is not positioned for the dramatic global changes abroad and their subsequent impact here in the United States. Furthermore, given



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the uncertain inflationary environment and future global demand, commodities, gold and natural resources may all have a place in a properly diversified portfolio.

Lastly, you must monitor your plan. We have worked hard to create a one-page summary for clients to understand their global allocation, sector exposure and performance. Whether it is one page or several, it is important that individuals understand what their allocation is, why they are allocated the way they are and what potential ramifications volatility will have on their goals. Furthermore, clients should evaluate whether they are closer or further away from their goals on a yearly basis. This helps provide context to the various market indexes and allows individuals to personalize their own performance.

Create and Implement Your Estate Plan

Having a properly implemented estate plan is not a luxury for business owners, it is a must. Nothing can derail the fortunes of your business or the wealth it has created for your family more than your own death or disability. Your estate plan should be designed to avoid probate, take into account illiquid holdings like real estate or your own business, and it should account for periods of disability. In addition, you must work through important business succession issues and whether to utilize your own family or unlock the wealth built into the business by an employee or outside buyout. Very often, the latter provides a greater degree of wealth or security for the succeeding generations. Lastly, you must implement your plan. You should talk to your advisor if you own assets in your own name, jointly or have named an individual or your estate as the beneficiary of a life insurance policy or an IRA. Very likely, you have not implemented

the plan and are on track for additional and unnecessary probate and legal expenses.

Entrepreneurs and business owners should also understand the importance of communication. Having conducted many family meetings, I cannot stress the importance of bringing all the key players into the loop regarding your own estate plan. Furthermore, compiling an estate-planning summary document that includes information on where documents are held, safe deposit boxes, burial instructions and assets help the family by allowing them to focus on the grieving process, not trying to piece together your financial puzzle.

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Create a Tax-Minimization Strategy that Bridges with Your Retirement Plan

Business owners have the unique ability to choose their own benefits. 401(k) plans, defined benefit plans, Health Savings Accounts and other plans may all be available to the business owner. Of course, navigating these plans can be a compliance jungle.

Furthermore, any proposed plan should fit neatly within a business owner's own goals and the general needs of the business. Therefore, business owners would do well to work with advisors who are capable of modeling out their options as part of a multi-year tax projection. It is only through this high level of analysis that individuals can evaluate the choices available to them.

Risk Management

Entrepreneurs must isolate their risks. Business and personal risks must be isolated through both legal vehicles and insurance. Businesses and rental properties necessitate corporate structures to isolate the potential risk-based losses to the business assets. Personal liability insurance is also important to protect wealth that has been removed from the business over time. This two-part strategy is important, and failing to properly update your risk management strategies can derail your future and that of your family.

Conclusion

Running a business is not an easy task. Individuals, however, must take control of their own financial situation in order to translate their hard work into real wealth. Understanding the context of their own financial decisions allows the perspective needed to weather today's challenging investment environment. Furthermore, individuals must be equipped to go beyond investments and create the type of cohesive strategy that incorporates every facet of their financial and legal lives. ●



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Please consult your advisor to determine if a global investment strategy is appropriate for you. Past performance of either the domestic or international markets is not predictive of future results nor will diversification alone protect from loss.