Wealth Management For Business Owners: An Introduction

As the owner of a successful business, you have your work cut out for you on many levels. First, there are the core economic activities and considerations necessary to make a profit. Whatever goods or services you offer, your *fundamental economic equation* must make sense in terms of your costs and the value you deliver to your customers.

Second, you have *to execute* on that fundamental economic equation, which means everything from product development and marketing to managing staff and vendors to servicing customers. And third, you must *shepherd your overall resource base*. This takes an awareness of the entirety of the financial wealth your business represents, and a willingness to manage that wealth for the long-term benefit of multiple and sometimes competing constituencies, including at minimum yourself, your family members, and your employees.

Is this third level of focus really necessary? Keeping your business profitable in the here and now, especially in the wake of the recent recession, is already a huge task. "Either we're making a profit or not," you might say to yourself, "so why should I bother worrying about managing my business's wealth in some abstract sense?"

Part of the answer, of course, is that failing to pay attention to wealth management issues doesn't make them go away. In fact, neglecting them may cause your business and those who depend upon it a great deal of long-term harm. This introductory article will briefly look at the kinds of issues, questions, and decisions that wealth management embraces to illustrate exactly what's at stake here. But first, let's consider the other part of the answer to the "why should I bother?" question.

Doing What You Do Best

As the owner, you probably know how to do nearly everything your business requires in real-time, both so that you have a general idea of your staff's activities and so that you

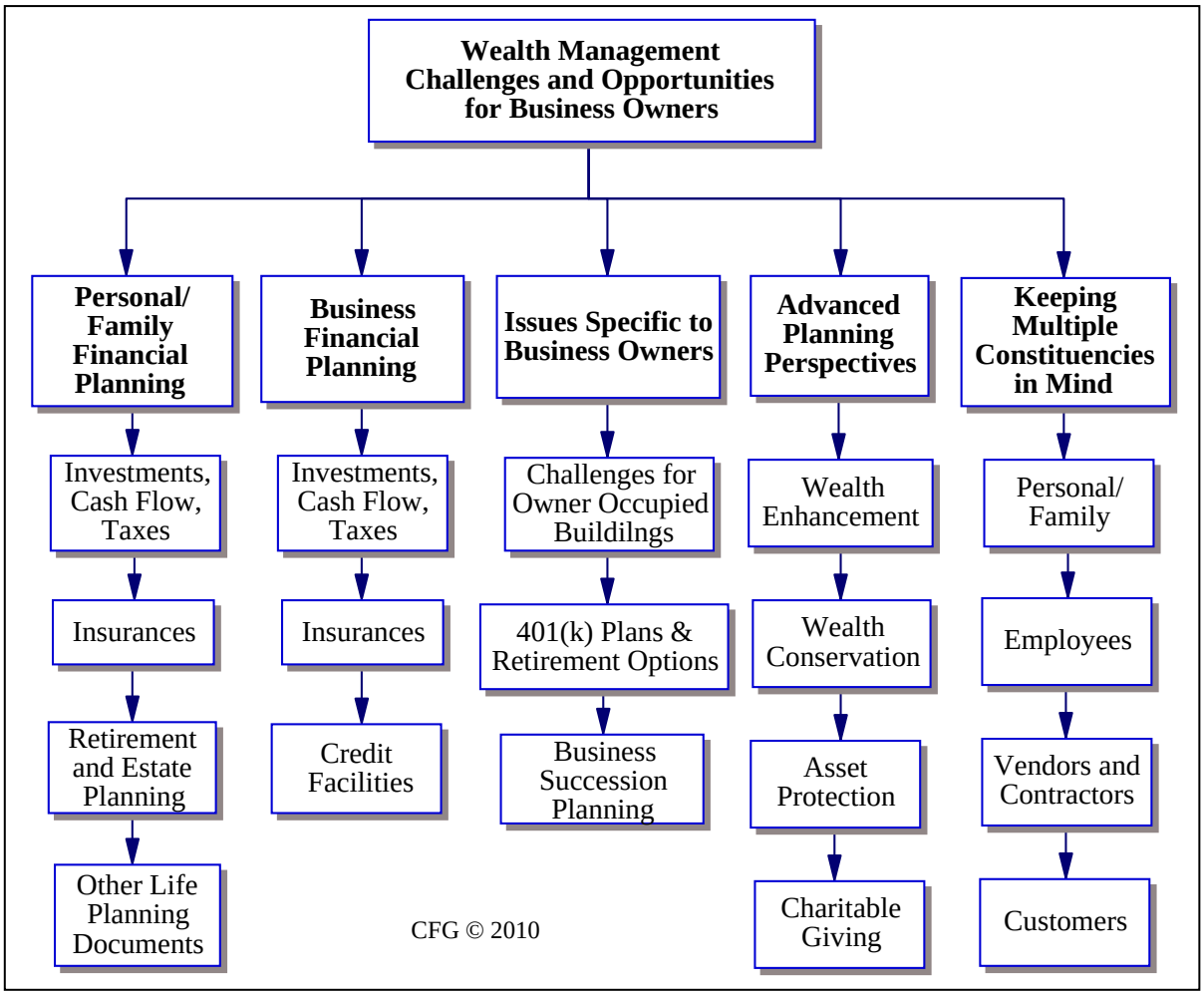
can step in during emergencies and absences. Ideally, however, every role and function in your business should be performed by someone who's particularly good at it. While there are some things that only you have the authority or knowledge to accomplish, the principle of *specialization* states that your business will do best when you, personally, are most effectively leveraging your time and knowledge by bringing to bear your personal highest value adds as often as possible. Since time is ultimately everyone's most limited resource, turning to an experienced guide with specialized wealth management expertise therefore makes a good deal of sense. By doing so, you'll gain three substantial advantages.

First, you can expect much better long-term results, since your company's wealth will be ongoingly shepherded and stewarded by experts with a high level of competency. Second, since you're likely already involved with certain wealth management decisions and activities, by turning these over to professionals, you'll *actually save yourself time* right from the start (thereby enabling you to more effectively leverage yourself).

And third, given that this is a critically important area that affects the long-term well being of those who depend upon you, you'll likely sleep better at night and focus better during the day. Wealth management, in short, is a complex domain of great importance where the assistance of able professionals will provide great value both in terms of measurable outcomes *and* in terms of freeing you up to do what you do best.

Wealth Management: A Brief Overview

As the chart below shows, wealth management embraces many issues and concerns, some applicable to affluent individuals generally, and some more specifically relevant to business owners. For example, starting on the left with "Personal/Family Financial



Planning," the owner of a business must obviously take care of himself or herself personally, as well as his or her family. This brings us to the realm of investment consulting and financial planning, and takes into account critically important real-time topics such as current investments, cash flow needs, tax implications, and insurance needs (life, health, liability, etc.). But it also involves longer-term planning, including retirement planning, estate planning, and other life planning documents such as medical powers of attorney.

The next column, "Business Financial Planning," embraces similar sorts of financial planning issues, but from the primary perspective of taking care of one's business. This involves current real-time investments of the business's financial reserves, cash flow

needs, tax considerations, insurance needs, and the establishment of credit lines for businesses with cyclical inventory needs.

Next are “Issues Specific to Business Owners.” These include challenges and opportunities for those in owner-occupied buildings (e.g., title, liability, and insurance issues), determining the best and most fair retirement plan to offer to company employees (what kind of a 401(k) or other plan makes the most sense?), and thinking through business succession planning issues and opportunities (does the next generation want to take over the business, and if so, how can taxes be minimized?).

The next two columns provide higher-level conceptual approaches. First, there are four “Advanced Planning Perspectives,” systematic approaches to the first two column’s financial planning issues. “Wealth enhancement” refers generically to strategies and tools that maximize cash flow and the tax efficiency of current assets while achieving both growth and capital preservation goals. Next, “wealth conservation” is the process of legally structuring the future disposition of assets to minimize taxes and maximize the benefits to chosen beneficiaries. “Asset protection,” then, involves the use of insurance and other strategies to ensure that your wealth is not unjustly taken from you, your family, or your business. And finally, “charitable giving” refers to maximizing the effectiveness of your charitable giving and intent.

The final column, “Keeping Multiple Constituencies in Mind,” can be thought of as the “Many Hats Challenge”: As a business owner, you are automatically responsible for multiple constituencies, including your family, your customers, your employees, your vendors, and so on. Many wealth management issues, challenges, and opportunities are therefore made more complicated by the fact that you must take into account (a) a variety of legal, regularity, financial, and ethical concerns that (b) have direct and sometimes substantially different impacts on multiple constituencies on (c) a wide range of financial-related issues and decisions.

A Systematic and Expert-Oriented Approach

Over the years, many of those offering wealth management advice to affluent individuals and business owners have changed their title and approach from “stockbroker” to “financial advisor” to “financial planner” to “wealth manager.” A stockbroker mainly offered financial products and investment advice; with financial advisors and financial planners, there was an evolution that involved comprehensive planning based on an in-depth analysis of the client’s needs. Finally, the modern wealth manager plans for and advises not just on financial needs per se, but on everything that affects the client’s short- and long-term wealth.

The best wealth managers make use of (1) a systematic, customized, and consultative approach and (2) a team of outside experts to address critical matters requiring specialized expertise. First, then, look for a wealth manager who employs a detailed process specifically designed to discover the depths of who you are so that your financial and non-financial goals, needs, and desires can be properly understood and served. The next article in this series will describe the detailed multi-tiered approach that we use at CFG Wealth Management. Importantly, you also want a wealth manager who provides a consultative approach, that is, someone who stays in regular contact with you, solicits your input and feedback, and works with you the way you want to be worked with.

You also want a wealth management firm that recognizes and then transcends its own limitations by calling on a team of outside experts—such as specialized attorneys, accountants, and insurance agents—to discuss your particular situation and then offer you a palette of customized options. For example, suppose you plan to sell your successful business within ten years. The planning needed to carry this off in as advantageous manner as possible will best be accomplished if individuals with specialized legal, tax, and insurance expertise are brought into the conversation early on and then regularly consulted with. In the short run this may not be the least expensive way to go about planning to sell your business, but in the long run you—and your family and other constituents—will likely be much better off.

As the leader of a successful business, you necessarily have a tremendous number of details to attend to. This article presented an overview of the unique wealth management challenges you also face, but only hinted at the complexity of the issues and possibilities that a dedicated wealth manager takes into account when considering your specific situation. If you identify and come to rely on a good wealth management firm, you'll still have many decisions to make, but you'll do so with the help of those who are doing what they do best, thereby freeing you to focus on doing what you do best in leading your business to higher levels of achievement and profitability.

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