

## What about my business assets? A guide to helping business owners manage their illiquid wealth

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**Question: How many business owners that work *in* their business actually work *on* their business as part of their comprehensive financial planning strategy?**

This subtle difference is paramount in distinguishing yourself as both a business manager and a business owner.

You may ask yourself what does this distinction really mean and why is it important? Consider the fact that most people today have investments in many different forms including mutual funds, individual stocks, bonds, and life insurance, to name a few. It is customary for investors to pay someone 1% or more of assets under management to help manage this wealth either in the form of mutual fund management fees, financial planning fees or legal fees as part of an estate plan. These service providers bring valuable asset growth and protection services which investors are willing to pay for.

As a business owner, often times your single largest asset is your business. You spend countless hours developing your business, strategizing about its future and, with a bit of luck, growing it to make yourself independently wealthy. However, most business owners pay little attention to managing the wealth they have created in their business even if it represents such an important part of their financial future.

**The following is a set of planning tools you should consider as you examine your business from an investment perspective.** These strategies will help you think about how you will invariably convert your illiquid business assets to liquid assets over time through enhanced performance, distributions, partial sale or, ultimately, the total sale of your company.

- **Valuation**
  - Investors regularly receive account statements that enable them to determine how much their assets have changed over a certain period of time. These statements are crucial to rebalance an investment portfolio and to possibly re-calibrate an existing investment plan.
  - Conducting periodic valuations of your business will help you *keep track of your return on investment as time goes on and will help you plan accordingly.*
  - An annual comprehensive valuation will also help you see your business from an outside perspective and may be a good centerpiece for annual strategic planning meetings.
  
- **Buy-Sell Agreements**
  - Drafting a buy-sell agreement with an experienced attorney is an important task when there are multiple shareholders in your business.
  - Updating your already existing buy-sell agreement, through periodic valuations, is also an important planning activity.

- **Insurance**
  - Part of your asset protection plan for your business should include a discussion about life insurance for key employees to fund buy-sell agreements.
- **Legal Review**
  - On a day to day basis, your business conducts various activities such as obtaining new bank financing, entering into contracts or shifting key management positions. All of these activities can potentially generate new legal obligations or exposure. A periodic review of all corporate legal documents and contracts can help uncover future potential problems as a result of these activities.
- **Estate Planning**
  - A good estate planning attorney and a qualified CPA can help you navigate sophisticated tax planning strategies to help minimize the tax burden upon your passing. It will also allow you to plan how your assets will be allocated over time as you age and help you develop an efficient succession strategy.
- **Audited Financials**
  - Having audited financials can make a company much more market-ready, even if you're not for sale. It can also uncover issues relating to the value of your company such as inadequate internal controls or improper tax compliance.
- **Positioning For Sale**
  - If there are known problems facing your company, it can be helpful to allocate funds to correct these problems. Almost any business can be sold for a price and if your company is being operated as "ready for sale" you can be prepared to negotiate unsolicited offers in a position of strength.

### **How much will this all cost**

Consider allocating a percentage of value of your illiquid assets, say 1%, to implement these strategies. Remember, however, that allocating funds to manage the wealth in your business is intended to increase the yield on your investment. If these strategies are properly employed, the net benefit will outweigh the cost and you will effectively increase the value of your most important personal asset.

### **Final Thought**

You don't know what you don't know and realize that most professionals are willing to provide you with free consultation to discuss some of these issues. Don't be afraid to ask!