

Business owners' unique investment considerations

Investing Wisely

BY DANIEL COHEN



To succeed in business it is often suggested that people should find a niche in their market and specialize in serving those in that niche. In the financial advisory field, there are some who specialize in financial planning for doctors, lawyers, women, parents, seniors, etc., but I find that the financial plans for most of these people will be very similar. What is often different is what stage of life that person is at the time of the financial planning engagement.

But one group of people does stand out due to unique challenges they often face that others don't: business owners.

For many business owners, money that would otherwise be set aside for savings gets all tied up in their businesses. Whether a business is profitable or not, the owner's personal funds are often commingled in that business. The owner of a successful business will typically take the profits (personal income or salary) and invest back into the firm to further grow.

Most owners understand their own businesses best and have confidence to invest surplus funds back into their companies. Unless the owner plans to work forever, he or she should develop an exit strategy that may include selling the business. The proceeds of the sale will fund the owner's retirement.

The biggest challenge for many successful business owners is making the transition from work to retirement. Since many busi-

ness owners hold all or most of their net worth in their business, they often have very little experience investing outside their own company.

In retirement, however, the funds need to be invested somewhere to generate enough income to fund their retirement.

Many business owners are uncomfortable investing in another business to generate the income needed in retirement, and today's interest rates are far too low to support the retirement most people desire. I have worked with many business owners who have successfully made the transition from reinvesting back into their business to independent financial planning.

Sometimes it takes more time to build trust, but most business owners recognize the value of hiring a financial advisor and the assistance they provide.

Focusing energy

It is recommended that business owners start a retirement plan many years in advance of their actual retirement. This makes sense for several reasons. The primary reason is to build up a retirement fund to be used in the future. Some business owners resist saving outside their business, feeling like the best returns they can earn are in their own business – something over which they have some control. However, I am sure most people know someone or have heard stories about strong businesses that didn't adapt to changes in the economy and eventually closed.

I always recommend that business owners divert some of their profits into investments in industries other than theirs so that if there is a downturn in their industry they will have

other funds working for them.

Over the years, I have met doctors who only invested in medical-related companies or technology executives that only invested in other tech companies. It is very common for real estate developers and property owners to only invest in real estate. This one-dimensional approach is very risky.

A secondary reason that business owners should invest outside their business or industry is to gain investing experience. The worst thing is to spend a life building up a business, selling it at retirement age and then making a major mistake investing the proceeds and suffering a major loss.

Generating income and dividends as an executive and owner of your business is a lot different than investing your money in stocks and bonds for income. As the business owner you have all the control over decisions and distributions while as an investor in stocks and bonds you have little control and have to gain trust and understanding of how the system works. Again, a good financial advisor can provide the education and counsel needed.

Business owners also should understand the tax impact of their decisions, including the capital gains tax when the business is sold.

The best advice for a business owner may be to focus energy on the core business. Do what you do best. Then hire advisors to make sure all is being done professionally to organize and operate the business most efficiently. Plan for the eventual exit strategy by focusing your expertise on building your company and then following professional guidance to diversify your investments. **NHBR**

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