Entrepreneur to Global Investor: Successfully Navigating the Transition

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Owning and running a thriving business is akin to having a successful long-term relationship. It can be all consuming, and requires energy, passion, and commitment. Unlike a personal relationship, however, the ultimate success of a closely-held business often can be measured by the extent to which an exit strategy is effectively planned and executed. Whether the business owner sells, closes, or transfers the business to family, the transition is one that must be carefully considered well in advance of the event.

The decision to close the doors of your business may be an easy one, informed largely by economics. The decision to sell the business outright, or transfer it to family members, on the other hand, typically is far more complicated, involving consideration of myriad financial, familial and emotional factors. Once that decision is made, the impulse is to move quickly into action: if the decision is to sell, then a deal is struck; if the decision is to keep the business in the family, then business interests are transferred. While the urge for swift action may be compelling, the prudent business owner should take pause—proceeding slowly and judiciously to make sure that both the “deal” and the family financial structure are in place well in advance of any change in ownership. Additionally, a business owner should carefully consider the lifestyle and psychological changes that accompany the move from entrepreneur to investor.

THE DECISION

The factors informing the decision to sell a business or keep it in the family fall roughly into two categories: the hard facts and the softer factors. The hard facts include issues such as: market dynamics, stage of business lifecycle, economic conditions, opportunities for organic vs. acquisitive growth, foreign competition, and a litany of other business indicators. Professional advisors can certainly assess these factors, but more difficult is the task of sifting through the softer considerations. Less tangible inputs might include certain characteristics or life stages attributable to the business owner—changing appetite for risk, energy and enthusiasm for running the business, desire to pursue other interests, and compulsion to retain control of the business. Another factor is evaluating other individuals, which can be tricky, especially when those being evaluated are family members or trusted employees.

The first key decision is WHO—who will be the next owner of the business? While some owners hope their business will continue in the hands of family members, it is critical to honestly assess the ramifications of this decision. The business owner must consider the business aspirations and aptitudes of the children, the nature of the relationships among the children and the impact that would have on the business, and the nature of the business owner’s relationship with his or her children. Likewise, the entrepreneur must consider the likelihood that the business will remain a viable venture if left in the hands of existing management and leadership.

One need not search very far in the popular press to find stories of families in which wealth has proven crippling to younger generations.

The second big decision is WHEN. When is the best time to sell or gift the business? Many factors impact this decision. Internally, the owner and his or her advisors must assess the company's cash flow, earnings growth rate, leverage, liquidity, management bench strength and overall health. As noted earlier, the general economy, industry and other external forces are also important considerations.

The question of timing is also intertwined with the choice of who will own the business and who will receive the family wealth. If the business is to be sold to outsiders, it is often best to transfer interests to family members well in advance of the sale. The subsequent sale may not occur for a year or more, by which time the family's interests may be worth considerably more. For transfers to charity, the business owner may prefer to have a high valuation, either in order to provide the charity with a significant gift and/or, in some jurisdictions to receive a large charitable income tax deduction. Accordingly, charitable transfers may more often be made at a time closer to the date of the sale.

The third major decision, HOW, involves the choice of tactics to pass the wealth in the most efficient manner possible, while still achieving the family's goals. The discussion that follows explores some transfer vehicles. But before the business owner spends time examining specific structures, there are some critical steps to take.

Prepare the Money for the Family and the Family for the Money

Whether the business is transferred within or outside the family, in most cases family members will be the ultimate beneficiaries of the wealth that was created by the business. Consequently, concurrently with growing the business, consideration should be given to ensuring that the children and grandchildren who will inherit the family wealth are prepared to handle it. One need not read very far in the popular press to find stories of families in which wealth has proven crippling to younger generations, rather than providing opportunities. Any complete plan for family wealth must address issues of wealth education and stewardship, and the impact that the wealth strategy will have on the family.

Preparing the family also means advising them of significant changes, such as a sale or other transition, well enough in advance that they have time to get comfortable with the new regime. For family members who have not been involved in day to day management, the immediate concern after the sale of the family business may be whether the dividends they were accustomed to receiving will continue. The sale may have provided generous nest eggs for all family members, but their natural focus is on the cash flow that supported their lifestyles in the past.

Family members, even children, should also have at least some knowledge of anything that may be discovered by the media, well before the news could become public. It can be disastrous for a child to learn from a school mate that he is now "rich", because his father just sold his business for an attractive sum, and this was reported in the morning papers.

One issue that arises frequently in the context of a family business is the equalisation dilemma. Is it necessary or appropriate to strive for financial equality between a child who is active in the family business and another child who has no interest in the business? There is no right answer to this question, but failing to address it can be a significant impediment to sustaining family wealth and promoting family harmony.

DEALINGS BEFORE THE DEAL

Building the Right Team

Once the major preliminary decisions have been reached, the business owner enters a critical phase of information gathering and planning. At this point, acting too hastily can easily derail transactions. Common missteps include:

– Flawed notions of business value or sale proceeds
– Insufficient allocation of resources to the transaction process
– Lack of attention to immediate post-transaction needs (e.g., where will the cash be placed?)
– Unsubstantiated projections, inadequate due diligence
– Inability to juggle the demands of the transaction with the ongoing requirements of the business
– Failure to assemble a complete team of appropriate advisors

Regardless of the industry or type of business, a business owner will need a common core of advisors when the decision is made to sell or transfer a business.

Regardless of the industry or type of business, a business owner will need a common core of advisors when the decision is made to sell or transfer the business. This will likely include an investment banker, an accountant familiar with corporate and personal taxes, an attorney familiar with business law issues and wealth transfer matters, a business valuation specialist, and a wealth manager.

Assembling this team can be a challenging undertaking. Often, the first impulse is to engage the advisors who have been helping the business since its inception. Sometimes this can be exactly the right decision. The danger, however, is that as the business, the family and the wealth have grown, the complexities of that business and the nuances around the transfer of that business may exceed the capabilities of long-standing advisors. Prudent advisors who recognise this will be candid with the business owner about the situation, and will work to stay involved in the business while also referring the owner to a specialist. It is important to remember that bringing in a specialist does not necessitate the end of a long relationship with an advisor.

In addition to advisor referrals, personal networks such as other business owners, are a valuable resource for referrals to qualified and specialised advisors. Of course, businesses in certain industries might require additional industry-specific assistance. Peer networks, trade associations and professional groups can be enormously helpful in identifying the need for specialised advice and finding the appropriate advisors.

Once the right team is assembled, it is up to the business owner to oversee the activities of the advisors, which begins with drafting a timeline and order of activities.

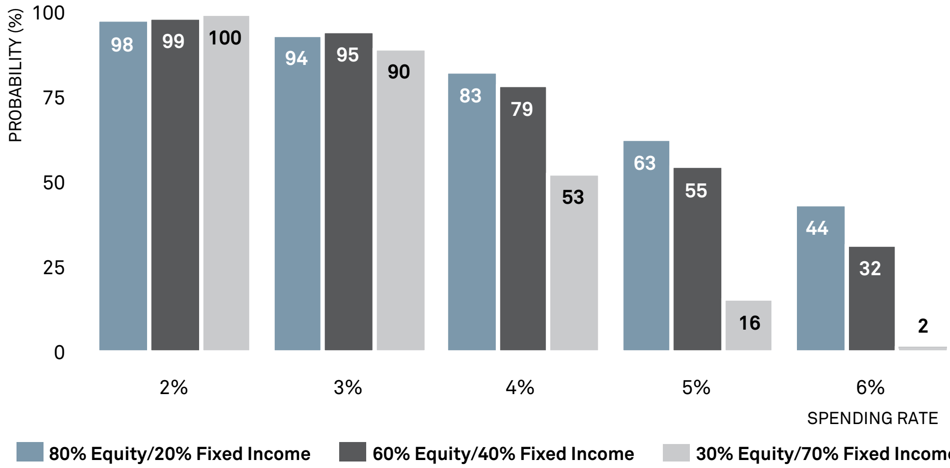
Assessing Family Financial Goals

Before discussions of the deal begin, the business owner and family should consider how they would like their family's wealth to work for them. This discussion can be framed around one deceptively simple question, "How much is enough?" Three issues usually exist within this one question:

1) How much is enough for my spouse and me (i.e., spending)?
2) How much is enough for my family (i.e., inheritance), and
3) How much is enough for my community (i.e., philanthropy/legacy)?

The answers to these questions will drive the family's wealth management strategy and, in turn, that strategy should have some impact on the form of the business deal or transfer. For example, if charitable giving is a priority, in some cases a stock transaction might be more beneficial than a cash deal.

Impact of Spending Rate on Portfolio Value
Probability of Assets Greater Than Half Original Value After 30 Years



Spending rate equals stated percentage of inception market value and increases at an assumed inflation rate of 2.5% per annum. Asset allocations are constructed based on BNY Mellon Wealth Management's strategy recommendations. See endnote 1 for additional information.

How Much Is Enough: Forecasting Your Spending Needs

Determining how to pay for a certain lifestyle, inheritance or other goals after the sale of a business can be a huge challenge for former entrepreneurs. Many business owners are able to finance their lifestyle out of cash flow from the business. Upon the sale of the business, however, that cash flow dries up and the former business owner will have to rely upon the sale proceeds to finance his or her lifestyle and, eventually, desired inheritances and other financial legacies. Experienced wealth managers can assist by modelling various scenarios which incorporate present and future cash flows, anticipated inflation, forecasted returns in the capital markets and desired levels of "safe money" for emergencies. An analysis of the type of lifestyle that the business proceeds can support is often an eye-opening and sometimes unsettling experience. Here again, a wealth manager with knowledge of and access to a broad range of financial options can guide the new investor in addressing shortfalls and presenting alternatives to optimise cash flows and returns over different time horizons.

TACTICS FOR TRANSFERRING ASSETS

Once the family wealth management strategy has been determined, the next step is to identify the appropriate techniques to carry out the family's goals. Depending on the location of the family members and the business,these techniques may be created, at least in part, to mitigate taxes and/or to retain control, usually in the hands of the former business owner. However, it is also critical never to let the proverbial tax tail wag the dog, or to focus on controlling from the top. Regardless of how tax efficient a structure may be, or of how logical it may seem to continue with a centralised management headed by the entrepreneur who so successfully created the nest egg, if it leads to dysfunction among family members, it is best rejected. Savings in taxes and simplified decision making do not overcome the potential disasters that can result from family discord.

Transferring the Business to Family

The techniques available to transfer assets within the family fall roughly into three categories:

- Outright gifts
- Structured gifts
- Sales

Keep in mind that what follows is a broad overview, with samples of several common structures. Since care is needed to assure that the actual planning and execution are done in accordance with local laws as well as the long term goals for the family, any technique of interest should be discussed in greater detail with the appropriate tax and/or legal counsel. This is particularly critical when there are personal and/or business connections with multiple jurisdictions.

Outright Gifts

An outright gift is a direct transfer of some or all of a transferor's interest, unencumbered by any other entity.

Example 1: Entrepreneur A owns all of the 100 outstanding shares of stock in his business. He decides to give 40 shares to his son. The stock is worth $10,000 per share. The outright gift is attractive for its simplicity, but likely will not afford as wide an array of planning opportunities as do other techniques. For instance, in many countries possible income and/or gift tax consequences of an outright gift should be considered.

Structured Gifts (Trusts and Other Legal Entities)

By simply placing shares of a business in a trust and/or other entity, and assigning beneficial ownership or gifting interests in the new entity, the business owner is often able to achieve a more attractive outcome. Advantages of structured gifts are many. Depending on the jurisdictions and family situations, these may include:

- Asset protection for business owner and family members
- Safety in times of geopolitical risk
- Seamless cross border planning
- Effective intergenerational wealth transfer: staged gifting to next generations
- Privacy
- Tax savings
- Consolidated management
- Mitigating transaction costs
- CONTROL! Patriarch/matriarch may retain control as long as s/he wants

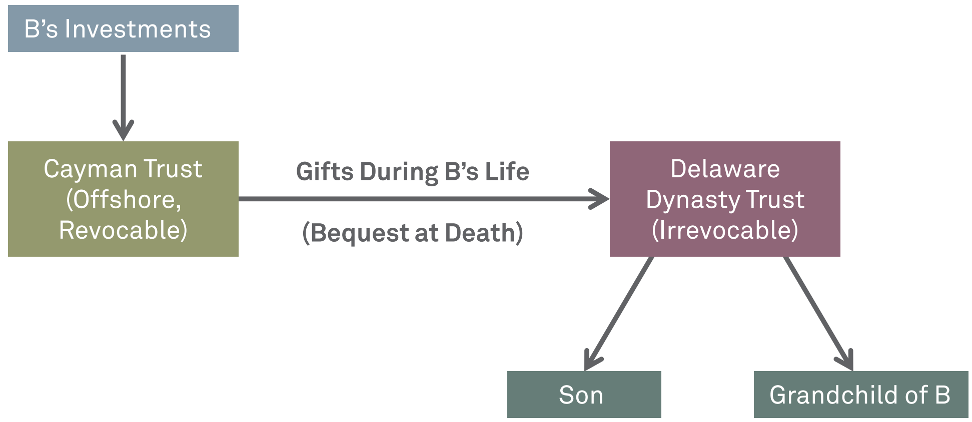
However, many of these techniques are incredibly complex and will vary from case to case. Any business owner considering them must be working with sophisticated advisors, must honor the formalities and structural requirements of the entity, and must be aware of the potential for future restrictions on these vehicles.

Gifts in Trust

Creating trusts and funding them with business interests is particularly useful for achieving significant tax savings and building the foundation for healthy family governance. The most basic type of trust planning involves transferring assets to a trust for the benefit of a group of beneficiaries.

Example 2: Entrepreneur B is a non-U.S. person whose son lives in the U.S. with his U.S. wife and children. B forms an offshore trust, transfers his assets into it, then gifts from his trusts to his heirs through a Delaware Dynasty Trust. The dynasty trust could be drafted to direct that B's son and his children receive all income from the trust assets and have the ability to receive distributions of principal for certain needs, such as, education, starting a business, or buying a home.

Trust planning should be undertaken well in advance of any event that would increase the value of the interests transferred, such as an IPO or sale.



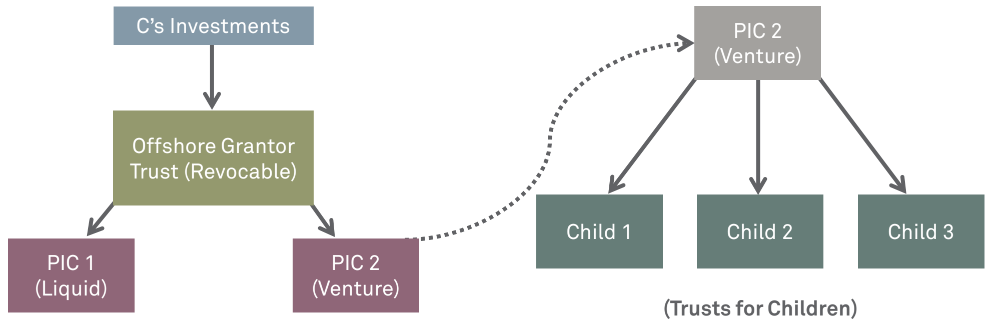
The dynasty trust could be a multi-generational trust, so named because these trusts have the potential to last for future generations. This would allow the assets to remain in trust for future generations, insulated from B's heirs' creditors, "predators" (including future spouses) and possibly some taxes.

The trustee of the trust controls the trust assets. This may provide an opportunity to grant some control of any business interests owned by this trust to B's children, by making them co-trustees, or even trust advisors with sole responsibility for managing the interests in the business. Alternatively, B could name an independent trusted advisor as trustee, effectively providing his children with the benefit of the investments, but not affording them control.

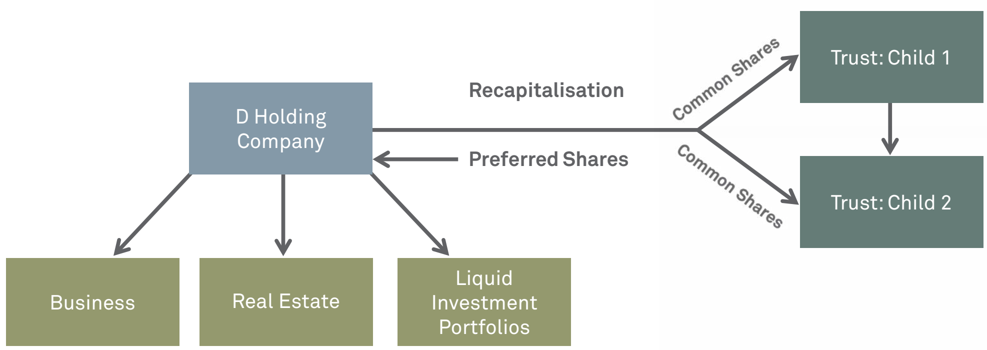
The issue of trustee selection is critically important, immensely technical, and can dramatically impact the management of the shares within the trust. For this reason, any business owner engaging in trust planning must think carefully and consult with his or her advisors about the range of possible trustees. Ideally, trust planning should take place well in advance of any event that might increase the value of the interests transferred, such as an IPO or sale.

Gifts in Other Entities
In some jurisdictions and for some families, other legal entities may be better suited to structure the transfer of family business interests and/or other family wealth. For instance, Private Investment Company (PIC), Family Holding Company (Holdco) or "Family Mutual Fund" may be the preferred entity for transferring interests to the family enterprise.

Example 3: Entrepreneur C transfers shares in his business and/or cash and securities into a PIC or multiple PICs with different objectives. C initially retains total ownership of the PIC, often in an offshore trust. C transfers shares in the PIC to his children and/or grandchildren during his life and/or death. (Note that this structure may need to change if C and/or one of his heirs became U.S. persons for tax purposes).

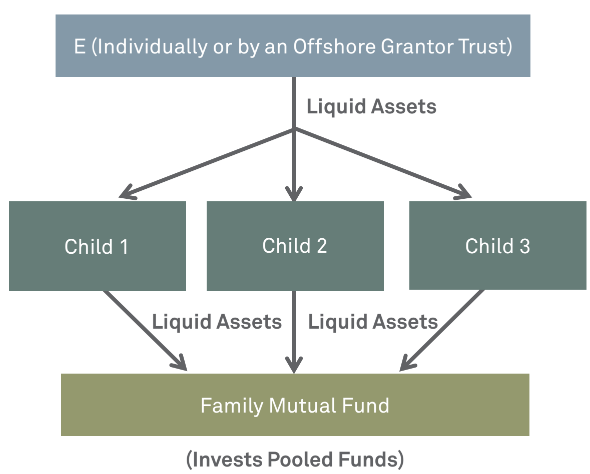


Example 4: Entrepreneur D places most business, real estate and liquid investments under an umbrella company called Holdco. D recapitalises Holdco into preferred and common shares; retains preferred shares and control, and gifts common to children (or trusts for children). Appreciation inures to children through the common shares.



Example 5: After selling the business, Entrepreneur E gifts cash and/or securities to his children or to trusts for his children's benefit. The children and/or trustees pool some or all of these funds into a legal entity (could be a PIC or other) which they call their Family Mutual Fund.

Initially E controls the management and investments in the Family Mutual Fund. Over time, children with the aptitude and interest to take on some of these duties become more involved. There is a prescribed exit strategy to allow children and other future heirs to later withdraw some or all of their funds.



Sales

The techniques described above focus on the gratuitous transfer of an asset to family members, in other words, a gift. Many business owners decide that they are not in a position to, or are not inclined to, make a gift of a business interest. In these cases, a sale of some portion of the business interest can be the right tool. The sale of business interests can be as varied in form and shape as the businesses involved, but there are a few general tools.

Outright Sales

One tool is the outright sale—a simple transfer from party A to party B for fair value. If Entrepreneur A sold shares of his company to his son, he would receive payment in return, and his son would own the shares outright. In some jurisdictions. A would also be faced with taxes upon the sale.

If A were interested in deferring that tax, he and his son might enter into an installment sale obligation. Under that arrangement, A would sell the business interest to his son in year one, but payments would be made to A over some term, perhaps a 10-year period. The installment sale is a basic technique that is popular with a large number of business owners for its simplicity and, under some regimes, its tax benefits. Families may also feel that it is a good way to reduce the financial burden on the purchasing child(ren), as well as ease the transition of management and control. It is not without technical pitfalls, however, so a business owner must engage appropriate counsel to ensure that the deal is structured correctly.

Transferring the Business Outside the Family

Selling the Business Outside the Family

Here again, the tactics are impacted by the initial decision concerning the transferee. If an employee or employees will be the new owners, the structure often takes a different form than when it is sold to an outside buyer. The negotiations during this phase are more an art than a science, and experienced advisors can play a crucial role in a successful outcome.

Structuring the Deal

There are many ways to structure the sale of a business. Buy-outs, often by private equity groups, have been very popular in past boom eras and are reviving again with the improving economy. Alternatively, under some tax regimes, the business could undergo a tax-free reorganisation such as a merger or stock swap, or it could be recapitalised. Buy-sell agreements are also a form of restricted sale.

Possibly the most contentious issue between buyer and seller is the relative benefit of an asset sale versus a stock sale. Purchasers usually prefer to buy the specific assets of the company. In addition to the psychological appeal of starting fresh, this limits the new owner's liability for past activities of the business, and under some tax regimes it may afford them a better tax result. Conversely, the seller may prefer to sell the company stock as a way to mitigate his own taxes and/or avoid the hassle and lingering liability of still owning the shell of the original company. Negotiations over this issue can become quite complex, as there are various alternatives that may offset some of the negatives to buyer and/ or seller in both asset and stock sales.

Another major decision for the business owner is how much of the company to sell and how fast. If the owner is tired of the business and eager to move on with new endeavors, he or she may be eager for a complete sale with minimal strings. On the other hand, many business owners prefer to phase out gradually, retaining an ownership interest and possibly an ongoing working relationship with the company. This can be formalized in a number of ways such as employment and consulting agreements. Discussions regarding earn-out provisions and hold backs can figure prominently in these negotiations.

There are also a host of other details to work out between the business owner and the prospective purchaser. These include:

– Amount of cash at closing
– Seller financing
– Possible installment sale
– Seller taking back buyer's equity
– Non-compete agreements
– Handling existing buy-sell agreements and other contracts

Clearly many of these items present significant potential risks and financial implications for the business owner. Having a team of experienced advisors to lean on is paramount to a successful outcome.

STEPS TO SUCCESSFUL BUSINESS TRANSITIONS

(A typical sequence; the exact order varies with the circumstances)

– *Start planning well ahead*
  • At least three to five years is typically required
– *Put in place strategies to maximize the value of the business*
  • Management talent
  • Financial ratios and books
  • Reputation
– *Assess potential successors/buyers*
  • Observe, train and test family members and/or potential internal candidates
  • Note possible external buyers
– *Assemble a team of expert advisors*
  • Possibly add to current advisors if expertise needed
– *Obtain an accurate valuation*
  • What is your business worth; not what you think it ought to be worth
– *How much is enough?*
  • Analyze your own P&L and wealth transfer goals
  • Determine your bottom line: what you need
– *Prepare your family for the money*
  • Communicate: share future planning thoughts with heirs
  • Create family governance structures if appropriate
– *Explore your vision for the next phase of your own life*
– *Transfer some ownership interests in the business to family members before the transfer of management and control*
  • Often viewed as a purely tax saving strategy
  • But also useful for preparing family for next stages
– *Choose your timing carefully*
  • Consider business climate and personal situation
– *Structure the deal to optimise your bottom line and your family legacy*
  • Staged transition with an earn-out and/or ongoing consulting?
  • Buy-out vs. reorganisation vs. asset sale?

LIFE AFTER THE BUSINESS

Prior to the sale, restructuring, or transfer of a business, much attention is paid to the details of the transaction and to the subsequent structure of family finances. In most cases, however, little attention is paid to what the business owner will do after the sale of the business. In reality, many issues arise when a business owner transitions from running the business.

Too often, during the intense period of pre-sale negotiations, little or no attention is paid to the immediate needs once the money is received. Basic issues such as where to custody large sums of money and/or securities and how to efficiently manage cash movements suddenly require urgent attention, often at a time when the business owner and family are more than ready for a vacation! Ideally, with the guidance of an experienced wealth manager the infrastructure and process for handling these issues have been set up well before the sale occurs, and the transition is smooth.

Establishing a family office to handle the new "family enterprise" is an attractive option for an increasing number of former business owners. The staffing and duties of family offices differ widely, depending on the needs and maturity of the family. At the outset, efficiently handling cash receipts and disbursements and placing cash proceeds in the optimal structure are key. Over time, family offices typically also take on investment responsibility, sometimes working in concert with the former business owner. Larger established family offices may also assist or even lead in philanthropic initiatives, succession planning, tax and estate planning, educating upcoming generations, managing unusual assets (e.g., yachts, private planes, homes around the globe) and even concierge services for family members.

Family offices are proving increasingly attractive as global wealth grows. In addition to the previously cited advantages of placing assets in an entity, benefits include consolidated reporting and cost savings due to scale. These can be realized not only by staffing a family office solely dedicated to a single family, but also by engaging the services of a professional family office firm supporting multiple families. These "multifamily offices" are located in major financial centres throughout the world, so multinational families may choose to work with one in whatever location best suits their global needs.

The natural impulse for an entrepreneur is to quickly launch a proprietary family office, often without a lot of planning as to the activities, responsibilities or other details. However, there are important decisions which can have long term implications on the success not only of the office but of the family members. These issues can include:

- The specific structure of the family office: whom will it serve, in what capacities, in which jurisdictions, and what purpose it should have
- The optimal location for the family office, considering among other things the jurisdictional impacts, location of family members, and proximity to investment opportunities
- The relative pros and cons of being a single family office, multi-family office or utilizing disparate services of various providers (often referred to as a virtual family office)
- The advantages of using a Master Global Custodian for safekeeping and consolidated reporting purposes
- The benefits of investment advisory services to oversee investment selections and performance
- Family and personal privacy considerations

Decisions on these issues merit sufficient consideration well in advance of opening the doors of the family office.

Prior to a liquidity event, entrepreneurs should consider how they will fill the days after their business is gone.

Control

Beyond the immediate logistical needs, some of the most common challenges facing the former business owner stem from relinquishing control and the need for a continued sense of fulfillment.

Most successful business owners are successful because they dedicate themselves almost entirely to running their business. The owner knows where every asset is, intuitively understands the cash flow patterns, and can almost predict the profit and loss. She or he turns the lights on every morning and can feel and touch the business' assets. A big part of the transition for a business owner is leaving this comfort zone in order to attend to the details of divesting the business and shifting to new investments for the future. This usually means moving from active control of all investments to being a passive investor, and that often does not sit well with individuals who have built and controlled an enterprise.

One difficulty is the inability to "see" the assets in an investment portfolio. The investor, of course, knows what investments are owned, but doesn't have great vision into those assets. For example, an investor in a mutual fund cannot see hour-to-hour, or even day-to-day, what is owned by the mutual fund. Even more dramatic is an investment in a hedge fund; given the highly proprietary nature of those vehicles, the fund distributes only minimal information, which can cause great discomfort to a business owner used to being in control.

TRANSITION FROM FOUNDER TO INVESTOR

BUSINESS OWNER	"PASSIVE" INVESTOR
How?	
Business Plan	Investment Policy
Business Controls	Plan Oversight
Evaluation	Evaluation
Resources	
Trusted Managers	Wealth Manager
Accountant	Trusted Managers
Consultants	Accountant
Industry Groups	Attorney
Attorney	
Investment Banker/Broker	

BUSINESS OWNER	"PASSIVE" INVESTOR
Growth	
Organic	Asset Allocation
Merger/Acquisition	Invest Internationally
Partners	Alternative Assets
Leverage	Leverage
No Growth Strategy	Which Managers
Income	
Dividends	Total Return or Income Only
Sales Volume	Tax-Favored or Taxable
Leverage	Leverage
Cost Structure	Long-Term Investment
Retained Earnings	Security of Investment

In order to reduce discomfort, it is critical that a business owner open a dialogue with a wealth manager before receiving the proceeds of a business sale. The wealth manager should be charged with understanding the needs and concerns of the business owner and creating an appropriate investment plan. Key to the success of this plan will be addressing the previously discussed questions as to “how much is enough” to fund lifestyle while also providing for future inheritances and/or legacies.

Experienced wealth managers have tools and insights to guide a new investor in assessing his risk tolerance, assessing the viability of targeted returns and recommending both long term strategies and opportunistic tactical moves to achieve the goals. The importance of asset allocation, which is the mix of different investment classes in a portfolio, has been demonstrated through various studies. Surprising to most novice investors is the fact that the actual choice of which stock or bond to buy, the effect of timing the market and other factors in a portfolio accounts for less than 10% of the overall return, whereas the decision on the relative weights to major asset classes such as equities or fixed income determines over 90% of the return. (See Endnote 2)

Once the investment plan is agreed upon, it should be clearly documented in an investment policy statement, and—this is key—that statement must be followed diligently once the investment plan is funded. The investment policy statement can serve as an anchor for the investor, reaffirming the portfolio objectives and strategy to mitigate uncertainty and preventing panic.

Some former business owners might find that, despite a clearly documented plan, they simply cannot resist the “buzz” of chasing a hot investment idea. That thrill seeking is okay and, if appropriate for the personalities involved, should be a part of the investment policy statement. But it should only be a small part. For most business owners, the goal for the proceeds from the sale is wealth preservation; they took extraordinary risks in building their wealth, and now are interested in ensuring it lasts. Large, speculative investments are not consistent with the objective of wealth preservation.

Accordingly, many entrepreneurs-turned-investors will dedicate some part of their wealth, perhaps 5% to 10%, to a risk capital portfolio. This risk capital is to be deployed entirely at the discretion of the investor, while the wealth manager ensures that the balance of the portfolio is managed in line with the wealth preservation strategy. This approach allows the thrill of risk-seeking, while limiting the possible downside.

Fulfillment: What Do I Do Now?
It is a common occurrence—the entrepreneur sells the business with thoughts of retiring to a life of leisure, only to wind up starting another business shortly thereafter. This is endemic of the type of personality often seen in entrepreneurs—they are not comfortable being idle. This might seem like a trivial issue, but it is critically important to the long-term well-being of the business owner and his or her family. Prior to a liquidity event, entrepreneurs should consider how they will fill the days after their business is gone.

The answers to this question are as varied as the personalities of business owners, but the answers all come down to allocation of time and resources. They also come down to priorities. Business owners must consider what they value and determine how to apply their considerable talents to those values. A business owner who moves out of the business at age 55 can expect to have many productive years ahead. This time could be spent traveling, pursuing philanthropy, spending time with grandchildren, starting a new business, advising nascent businesses, or managing a portfolio of private equity investments.

More and more, the post-business lifestyle seems to be a combination of the above activities. As a result, a cottage industry has emerged to assist with these kinds of transitions and advise business owners and executives on “next stages.”

Many of these specialists advocate a comprehensive life view, for instance, which mixes different life opportunities, such as paid work, leisure, family, community, and lifelong learning. This philosophy capitalises on the fact that life after the business can be much more flexible. Instead of being constantly tied to running the company, an individual can split time among numerous activities. The key is to find the activities that match the values and preferences of the former business owner. While a relatively new ‘industry,’ these personal transition specialists can provide very valuable assistance and in some cases have come to be viewed by their clients as just as critical as the advisors engaged to manage the actual business transaction.

SUMMARY

The decision to step back from running a business is never an easy one, and signals the sometimes difficult movement to the next stage of life. Once the decision is made, however, the transition can be seamless if the business owner takes the time to assemble the right team of advisors and works with those advisors to make sure that the transition provides the greatest benefit to the business owner and his or her family. Part of that exercise is to think well in advance about techniques that can be employed to shift wealth as part of a long-term wealth management strategy.

Timing is key in this area—waiting to think about wealth transfer until just before a transaction is closed may result in missed opportunities and diminution of the assets available to the business owner’s family. It is also important to be aware that decisions made at a moment in time may be revisited even years later. It’s not just about making the “right” decision once, but also ensuring that the decision continues to be the right one taken for a family in the future. It is normal that circumstances change over time. We advise families to build in a regular process where they can review the decisions made and consider whether that continues to be the best course for a family to follow.

In addition to preparing the business, the wealth strategy, and the family, the business owner must also prepare him or herself for life after the business. Traditional retirement seems to be an outdated notion to the current generation of business owners getting ready to transition away from their businesses.

With proper advice and thorough planning, a business owner can put his or her life’s work to work—to provide for the family, embark on new adventures, or to realise other personal goals for the future.

ENDNOTE 1

The 80% Equity/20% Fixed Income portfolio comprises: 29.8% large cap equity, 3.7% mid cap equity, 2.3% small cap equity, 12.0% developed international equity, 12.3% emerging markets equity, 10.2% taxable fixed income, 0.9% high yield fixed income, 2.2% absolute return strategies, 11.7% long/short strategies, 10.0% private equity, 1.6% commodities and 3.3% managed futures.

The 60% Equity/40% Fixed Income portfolio comprises: 22.4% large cap equity, 3.1% mid cap equity, 2.0% small cap equity, 9.0% developed international equity, 10.0% emerging markets equity, 28.8% taxable fixed income, 1.9% high yield fixed income, 3.1% absolute return strategies, 7.3% long/short strategies, 7.5% private equity, 1.2% commodities and 3.7 managed futures.

The 30% Equity/70% Fixed Income portfolio comprises: 13.4% large cap equity, 3.2% mid cap equity, 2.1% small cap equity, 4.5% developed international equity, 4.4% emerging markets equity, 60.2% taxable fixed income, 2.0% high yield fixed income, 4.4% absolute return strategies, 2.6% long/short strategies, and 3.2 managed futures. Return assumptions: 8.0% large cap equity; 8.75% mid cap equity; 9.5% small cap equity; 7.8% developed international equity; 10.0% emerging markets equity; 4.0% taxable fixed income; 7.0% high yield fixed income, 6.0% absolute return strategies, 7.5% long/short strategies, 12.0% private equity, 7.0% commodities and 6.0% managed futures.

ENDNOTE 2

Source: Brinson, Singer and Beebower; 1991 Study of Institutional Portfolios.

ABOUT THE AUTHOR

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As a senior director and global wealth strategist, Joan works closely with multinational families and their advisors to provide comprehensive wealth planning. She specialises in family governance and tax and estate planning for global families. With over 25 years of experience working with large multi-generational families, she is frequently invited to speak at events for client and professional advisors throughout North America, Asia and the Middle East. Her unique style is highly interactive, emphasising real life examples and practical tools.

Joan is a frequently quoted fiduciary and family governance expert and author of articles in business publications, including most recently *The Wall Street Journal*, the *New York Times*, *Trusts & Estates* magazine and *Fortune*. In addition, she serves on the Board of Directors of the Community Foundation of Broward and the Executive Committee of the Florida Bankers Trust Division.

Joan earned a master of business administration from Rollins College, a bachelor of education from Queens University and a bachelor of music from McGill University. She is a Certified Financial Planner® and has earned the designations of Certified Trust and Financial Advisor from the American Bankers Association. Joan is an active member of the Society for Trust and Estate Practitioners, a leading international planning organisation.

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