

# MOLDENHAUER & ASSOCIATES

## JUNE NEWSLETTER

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I am writing this article while on a short, but very busy visit, to WNY. Kathy and I, have since, returned to our home in Charleston where we are preparing for our return to WNY for the summer months.

Business at Moldenhauer & Associates is going well as I have mentioned in previous articles. A hard winter damaged the grounds at the office and the repairs will take place as soon as possible. We have also upgraded the phone system and we are upgrading the office computer server. The upgrading of client service continues to be our firm's top priority. Recently added staff is helping that ongoing work. It is very nice to see the chemistry in the office.

Many clients know that I have spent much of my career assisting business owners make succession transitions. Occasionally, I am asked questions about the firm and how my transition from firm leader to my present role was handled and how the change makes me feel. These are good questions and the answers are important to understand. I always tell them that, for me, the transition worked well because Brett and I had the same objective. We wanted to continue the quality firm that always has focused on the client and the client's best interest. For me, the transition not only continued the business, it also gave me the peace of mind so I could focus on my recovery from a serious illness.

By 2015, my health had become better than it had been since 2001. Remarkable but, as my doctors say, good fortune and hard work sometimes creates miraculous results. With the good health came the desire to get more active in the business. I decided to focus on what had always been my specialty, working with business owners on critical planning issues.

This year, more than at any time since 2012, I have increased my activity in the business, balancing my work with my love of family and fly fishing. I am seeing clients and potential clients both in South Carolina and in Western New York. I believe in the work we do; it is not just a job.

I hope you realize that the folks at Moldenhauer & Associates are dedicated to the best results for our clients. Take the time to ask any member of our team how they feel about the work we do.

*Richard Moldenhauer*

Richard Moldenhauer

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## KEY PERSON INSURANCE

*A way for businesses - especially niche businesses - to address a major risk.*

### Who are the people most crucial to your business?

Have you taken steps to insure them?

At every company, there are certain people who are essential to day-to-day operations. If they die, the business may face an operational or financial crisis.

Key person insurance is designed to help businesses deal with this circumstance. Its payout can offer some monetary relief, so that operations can continue running smoothly.

### Companies purchase key person insurance for a variety of reasons.

They realize that the insurance benefit could help them settle outstanding loans or pay for the recruitment and training of a new hire. Additionally, the policy may play a role in an ownership transition or an executive compensation plan. If a key person dies, the business may even want to provide their spouse or family with the equivalent of their salary for a time.

### How easily can this coverage be arranged?

Quite easily. In fact, any type of term or permanent life insurance policy can be structured as key person insurance. Most companies buy on price and opt for term coverage, but permanent coverage can be offered as an employee benefit, which can eventually be transferred to the insured party – a nice perk for retirement.

Key person insurance is constructed so that the company is both the policy owner and beneficiary. (It is alternately known as corporate-owned life insurance, or COLI.) As a first step, an insurer provides an acknowledgement and consent form that the business must use to legally notify the key person of its intent to buy such coverage. This form explains the coverage, and the key person must sign it before the policy can be bought.<sup>1</sup>

### A good key person insurance policy should have flexible terms.

It should give your business the option to raise or lower policy limits. In the case of a permanent policy, your firm should have the liberty to change which person is insured.<sup>1</sup>

Premium payments on a key person insurance policy are usually not tax deductible, but the policy payout is commonly tax free. There are no tax consequences for the insured person, unless they are named as the policy beneficiary or become its owner.<sup>1</sup>

### Key person insurance may also boost your standing as you seek financing.

If you apply for a business loan, you will be asked if your company has key person insurance. If it does not, the loan may not be forthcoming. Key person insurance is often a prerequisite for loans guaranteed through the Small Business Administration (SBA).<sup>1</sup>

### Niche businesses arguably need this coverage the most.

A software development firm, a biomedical company, or any kind of business where the owner or employees must have “expert” knowledge of a discipline or an industry, these are the businesses that may be most at risk should a key employee die.

### Is your company without key person insurance?

While insuring a company’s information, equipment, and inventory against loss is par for the course, insuring a business against the loss of human and creative capital is not. A loss of knowledge and mastery can spell the end for a small business that has transitioned from survival to success. Look into key person coverage today, for you never know what tomorrow may hold.

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*Provided by Richard C. Moldenhauer, CLU, CEP, RFC, ChFC*

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Citations.

1 - valuepenguin.com/life-insurance/key-man-insurance [5/8/19]



## DO YOUR INVESTMENTS MATCH YOUR RISK TOLERANCE?

*When was the last time you looked at the content of your portfolio?*

From time to time, it is a good idea to review how your portfolio assets are allocated – how they are divided among asset classes.

At the inception of your investment strategy, your target asset allocations reflect your tolerance for risk. Over time, though, your portfolio may need adjustments to maintain those target allocations.

Since the financial markets are dynamic, the different investments in your portfolio will gain or lose value as different asset classes have good or bad years. When stocks outperform more conservative asset classes, the portion of your portfolio invested in equities grows more than the other portions.

To put it another way, the passage of time and the performance of the markets may subtly and slowly imbalance your portfolio.

If too large a percentage of your portfolio is held in stocks or stock funds, you may shoulder more investment risk than you want. To address that risk, your portfolio holdings can be realigned to respect the original (target) asset allocations.

### A balanced portfolio is important.

It would not be if one investment class always outperformed another – but in the ever-changing financial markets, there is no “always.” In certain market climates, investments with little or no correlation to the stock market become appealing. Some investors choose to maintain a significant cash position at all times, no matter how stocks fare.

Downside risk – the possibility of investments losing value – can particularly sting investors who are overly invested in momentum/expensive stocks. Historically, the

average price/earnings ratio of the S&P 500 has been around 14. A stock with a dramatically higher P/E ratio may be particularly susceptible to downside risk.<sup>1</sup>

Underdiversification risk can also prove to be an Achilles heel. As a hypothetical example of this, say a retiree or pre-retiree invests too heavily in seven or eight stocks. If shares of even one of these firms plummet, that investor’s portfolio may be greatly impacted.<sup>1</sup>

### Are you retired or retiring soon?

If so, this is all the more reason to review and possibly adjust the investment mix in your portfolio. Consistent income and the growth of your invested assets will be among your priorities, and therein lies the appeal of a balanced investment approach, with the twin goals of managing risk and encouraging an adequate return.

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Citations.

1 - thebalance.com/normal-pe-ratio-stocks-2388545 [2/27/19]



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## UPCOMING EVENTS:

**We will be taking a break from doing our monthly seminars during the months of June, July and August and resume our seminars in September. Have a safe and enjoyable summer!**

Periodically visit our website at [www.moldenhauerassociates.com](http://www.moldenhauerassociates.com) or call our office to get a listing of upcoming seminars.

We encourage clients who live in the area to consider attending with a friend or two. We find that the best way to introduce new potential clients to our firm is when an existing client brings a friend to one of our seminars. As you know, these are information/educational events. We are not there to convince people that we are the only firm to consider working with. Rather, we do believe that our firm offers a quality opportunity for those people looking for a new advisor relationship. Please consider attending an upcoming seminar in your neighborhood with a friend. You may register for a seminar by calling 716-662-4361 or through our website at [www.moldenhauerassociates.com](http://www.moldenhauerassociates.com).

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