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WEALTH ADVISORS

THE EXIT STRATEGIES NEWSLETTER



EXIT PLANNING IS A PATH TO DIVERSIFICATION OF WEALTH¹

Most owners of privately-held businesses have the majority of their wealth trapped in their illiquid business. What this means is that without a path to turn the value in your business into cash, your overall wealth will continue to stay concentrated in your ownership of your business. So the fact that your business provides for a solid income and lifestyle is separate and distinct from considering how and when you will be able to turn that illiquid wealth into cash. This newsletter is written to help owners see that a business exit plan can be a vital first step towards diversifying your overall portfolio while also preserving the wealth that resides in your illiquid, privately-held business.

The Basics of Diversification

There is an old saying that applies to many business owners – that “in order to get rich, you need to own a lot of one thing, but in order to stay rich you need to own lots of different things.” Many business owners today ‘got rich’ through the ownership of their privately-held business. However, in order to stay rich, many owners will need to diversify their personal wealth through the transfer of ownership of their companies.

If you are like most business owners, your business comprises the majority of your wealth. Also, like most owners, your business is likely highly dependent upon you. Therefore, if you want to preserve your overall wealth through the process of diversification, you can consider planning for the eventual transition of your business, whereby a point in time will come for you to turn your illiquid wealth into cash.

Why Plan to Sell Something So Valuable?

Many owners understand the logic of diversifying their wealth through an eventual exit but they do not take immediate actions because they have a very good thing going with the success of their company. For owners who agree with the logic of diversification but perhaps have not taken any action in this direction, we offer another question to ask yourself:

“If I sold my business today [for a reasonable price] would I turn around and invest all of those proceeds back into the same business or into a single stock that does not have an actively traded market?”

The answer for most owners to both questions is a resounding ‘no’. Not only would most owners not turn around and repurchase the business that they just sold but they would also not be looking to reinvest in a concentrated, single asset for the same sale proceeds. The obvious reason for not repurchasing your business or to re-concentrate your wealth is because the RISK of only owning one stock – after achieving liquidity - is too high. There is a single point of failure with that financial plan because the investment dollars are not DIVERSIFIED.

This is the financial reality of many owners of privately-held businesses today.

Why Most Owners Do Not Begin the Process of Diversification with a Plan

An exit plan is a written document that assists an owner with consideration of different ways to diversify their wealth by eventually becoming liquid from a transfer of ownership. Given that the sale of a business is the largest and most emotional transaction for most owners, it makes sense that a plan would come before an action that is taken. However, we find that most owners do not take action to plan for their diversification for a variety of reasons. Many business owners offer a number of reasons, listed below, for their lack of planning, including:

- “I don’t perceive my business to be a RISK” **or**
- “I am not ready to SELL the business so I cannot DIVERSIFY, **or**
- “I bought plenty of life insurance to take care of my family if something should happen to me (in other words, ‘my demise is the only RISK that I really perceive to exist regarding the future profitability of my business’) **or**
- “I am DIVERSIFIED. My business sells many lines of products and/or services”

In each instance we see that the owner’s ‘plan’ is quite limited and does not actually diversify the owner’s family’s wealth. Perhaps somewhere in this list of common responses you see one that fits your reaction to this question of planning for diversification?

The Psychology of ‘Selling’

If there is so much logic behind diversifying wealth through an exit plan, then why don’t more owners do it? One answer lies in the psychology of an exit.

As an owner of your business you are the master of your own destiny. You have survived the odds against ‘making it’ in business and continue to fight them each and every day. For the most part, thinking about an exit strategy plan cuts against the grain of thoughts of business growth and expansion.

So, given this gap between logic and action, how do you begin to turn this bridge, this divide and start developing an exit strategy plan that preserves all of the wealth that you have accumulated?

Seeking Help is the First Step in this Planning Process

The most successful owners know that they do not climb a mountain all by themselves. Rather they surround themselves with a team that knows more than they do about areas that they are venturing into.

The same process holds true for planning for a business exit. We advise that you seek out professionals with experience in this area to help you begin the planning process that strives to protect your illiquid wealth.

CONCLUDING THOUGHTS:

In closing, most business owners will make up their minds to do something when they are good and ready to do so. Therefore, we can only continue to impress upon the millions of business owners out there that diversification is a key component to preserving the success that you have worked a lifetime to achieve. In this regard, one can say that it is never too soon to begin thinking about an exit plan, but without a plan, it could one day be too late. We hope that this newsletter has assisted you in thinking about your overall wealth and how an exit plan can begin the process of helping you preserve it.

¹There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.



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