

As an Entrepreneur and Founder, Are You Prepared?

As a successful Founder, you sit in one of two camps - (1) you invested nearly all your resources (money, energy, time, and attention) in your business and are building something special, or (2) you have reaped the rewards of years of hard work, passed the baton, and understand the importance of not risking it all again.

This paper shares what we have learned from our years of experience working with entrepreneurs and offers advice in a few key areas that can help you achieve financial security.

What Makes You Unique?

Entrepreneurs see a problem and have an innate passion to fix it... at any cost!

According to Harvard Business School Professor Howard H. Stevenson, entrepreneurship is "the pursuit of opportunity beyond resources controlled." Entrepreneurs are the greatest contributors of money and opportunity in all fields of our society, driving the world's progress. Your contributions are immeasurable, as are the trade-offs made along the way. With outsized success comes sacrifice, and in the world of an entrepreneur, too frequently, the sacrifice is amplified with failure. But even in failure, the exceptional entrepreneur stays in their three-foot world and continues to move forward to achieve greatness.

Why do Founders of great companies, both large and small, choose the difficult path? It's not for notoriety. It's to achieve what entrepreneur coach Dan Sullivan calls the Four Freedoms:

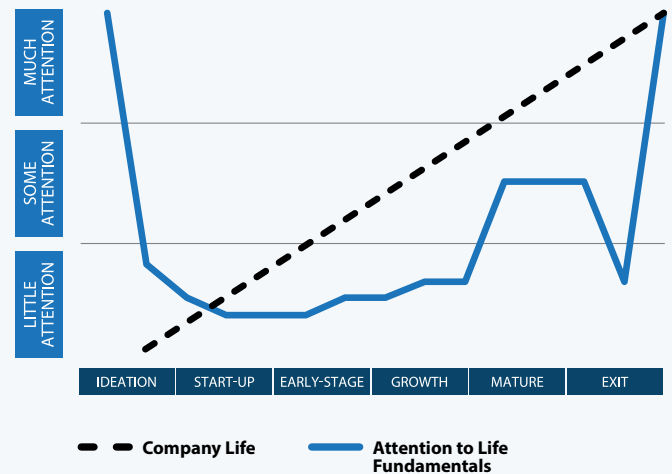
- Freedom of Time - to spend your life doing what you want to do AND the time to pursue other interests.
- Freedom of Money – to not have a ceiling on how much you can earn.
- Freedom of Relationship – to spend time with people who you appreciate and who appreciate you.
- Freedom of Purpose – to solve a problem and embark on a lifelong journey that embodies your fundamental values.

The successful entrepreneur's ability to weather the storm is not taught; it is innate.

But the path to Freedom is far from smooth. The resolve needed to succeed is not seen nor understood by the outside world, and the journey cannot be "white-knuckled." An all-in attitude and alignment across the company must be adopted from day one. Founders believe passionately in their mission and that they can fix the problem they are trying to solve. Difficult decisions about products, people, money, politics, uncertainty, and uncontrollable forces are made daily. The successful entrepreneur's ability to weather the storm is not taught; it is innate.

However, as the Founder continues to navigate the path to success, relationships, interests, and personal finance are sometimes neglected, not out of desire but out of necessity (see chart on top of page). Due to a lack of time, resources, and/or capability, many Founders cannot step away from the mission long enough to address these basic life fundamentals. The successful Founder excels in delegating and knows that utilizing experts is more effective, even if it

Stage of Company vs. Founder's Attention to Life Fundamentals



comes with a financial cost.

In our experience, Founders who can stabilize three critical pillars dramatically increase their chances of success.

Sound Decision Making: The average adult brain makes approximately 35,000 decisions each day. Some decisions are made subconsciously, while others take considerable effort and time. Because Founders constantly make highly valued decisions daily, it can become extremely taxing on the individual. A business coach, mentor, or trusted friend is needed to encourage the entrepreneur and help him/her stay motivated and not lose sight of the big picture.

Wellness: Staying mentally and physically fit is necessary. Sleep, meditation, yoga, and high-intensity weight training are all great ways to help clear the mind and keep the body strong for the challenge ahead. Fit entrepreneurs are more productive than their unhealthy counterparts because they have more energy, improved concentration, and less stress. A personal trainer may be the difference between being a fit, healthy leader vs. just hanging on.

Financial Security: Protecting your capital is essential whether you are building your company or have already had a liquidity event. For the active entrepreneur, liquid capital could be the lifeline of your company, so attention must be placed on the safety of funds. Retired entrepreneurs understand the effort and sacrifice required to create wealth and generally value preserving capital for future generations or charities instead of taking more outsized risks to increase the pot. With more wealth, whether liquid or illiquid, come more complications.

While we are not business coaches or personal trainers, we are experts in helping entrepreneurs be fiscally responsible and feel financially secure. We hope that sharing some of our findings helps you wherever you are on your journey.

What should you be doing now?

Protect your capital.

It is pivotal to control what you can. So, what can you control right now? In addition to the low-hanging fruit like investing in tax-free as opposed to taxable bonds, maxing out your 401(k) contributions (if you are still working), and avoiding short-term capital gains,¹ you should focus on mitigating future taxes, systematizing savings, and using debt appropriately.

As a Founder, you will hopefully have a significant tax liability on the sale of your company. By ensuring your shares are considered qualified small business stock (QSBS), you may be eligible to exclude the first \$10 million of capital gains for federal tax purposes. This can result in saving millions of dollars in taxes. There are strict criteria for your shares to qualify as QSBS, so understanding and abiding by the rules is vital.

One way to prepare today for gains resulting from an eventual sale of your company is through tax-loss harvesting (TLH). This decades-old strategy capitalizes on market downturns and realizes losses to offset future gains. Thanks to recent technological improvements, TLH can be done on a much more frequent, inexpensive, and customizable basis. One sophisticated approach is personalized indexing, where you own a few hundred individual stocks that track a custom benchmark. More tax loss opportunities exist throughout the year because you directly own the individual stocks. According to Vanguard, personalized indexing can increase after-tax returns by 1% to 2% annually.²

Regarding cash flow—reinvesting excess cash into your company may be necessary in the early years. As the company matures and cash flow stabilizes, following a written plan to systematically contribute to your non-retirement accounts will increase your chances of achieving financial freedom. Adhering to a plan ensures near-term cash needs and long-term goals like retirement, college funding, philanthropy, vacation homes, etc., are adequately funded.

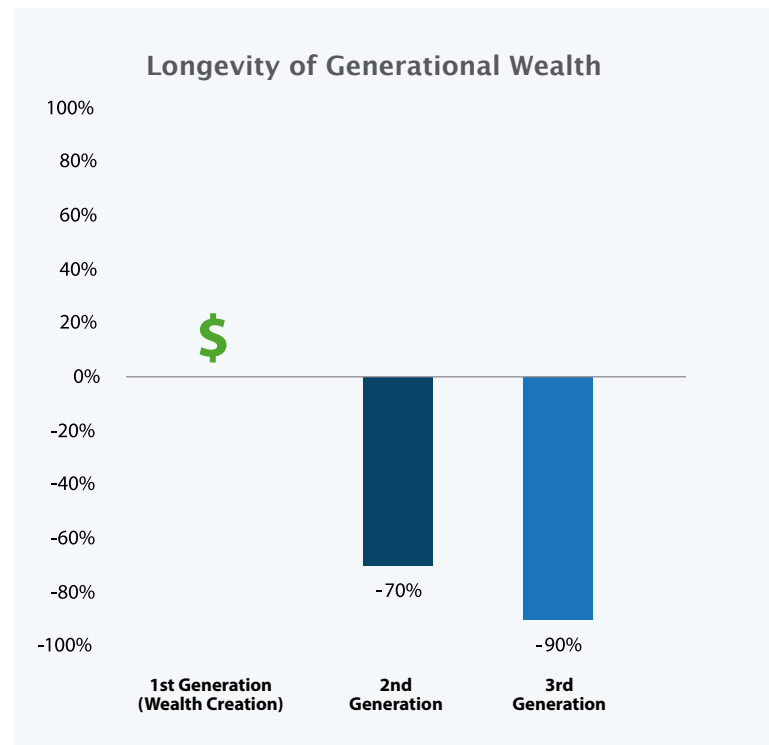
Debt, when used appropriately, can enhance wealth by working as a force multiplier. Take the carry trade, for example. Holding a low-interest loan, like a mortgage, and pairing it with a higher-yielding fixed-income investment is a risk-free way to achieve a positive arbitrage. In this example, paying down a mortgage may give immediate satisfaction but would be costly in the long run. Also, using debt as a bridge loan for things like capital infusions into the company and tax payments can be advantageous to selling

stocks and realizing a gain (taxes!). This also preserves the compounding effect of equities. However, debt can cause some anxiety. When misunderstood and ignored, money is left on the table. This is not the behavior of an entrepreneur.

As you achieve significant wealth, your focus may shift from immediate to multi-generational planning.

According to research by the Williams Group, 70% of families lose their wealth by the second generation and 90% by the third.³ Considerable thought must be given, even at a young age, to how you pass on your assets. Some decisions will be irreversible. Whether the aim is to minimize taxes, give to a loved one or charitable cause, or a combination of both, maintaining a balance between control, flexibility, and financial prudence is like walking on a tightrope. One misstep could cause your after-tax estate to fall well below your desired goal.

The first step is ensuring your estate plan is current. It is estimated that 50-60% of individuals with a net worth greater than \$5 million do not have a will. You have worked hard to be in this position and do not want to be a part of the 50-60% group. Intentions must be well thought out, and wills and directives must be executed. Only then should you consider making irrevocable gifts. If reducing your estate and/or increasing another's estate is important to you, one common, low-risk technique is making gifts today utilizing the annual gift tax exclusion.⁴



¹ Assets held less than 12 months and sold for a gain are taxed at ordinary income rates.

² <https://advisors.vanguard.com/insights/article/amp-up-tax-loss-harvesting-with-direct-indexing.html>

³ The Williams Group cites this statistic in multiple publications, including the book *Bridging Generations: Transitioning Family Wealth and Values for a Sustainable Legacy*, which is based on research on over 2,500 wealthy families.

⁴ The annual gift tax exclusion is an amount set by the IRS each year that can be given to any number of individuals without being counted against one's lifetime gift tax exclusion.

The second step is deciding if gifting substantial assets should be part of your overall plan. If so, determining the appropriate timing is also vital (i.e., do you want to give with a warm or cold hand?). You understand the power of compounding and the drag from taxes. Passing along assets today that would otherwise be subject to estate taxes can profoundly impact how much you ultimately leave to future generations.

Finally, the last step is determining whether gifting or selling some of your company ownership to future generations is desirable and, if so, whether it is possible. An attorney can handle the mechanics of a transaction, but arriving at your wishes and committing to them are your responsibilities.

Once estate decisions are made, protecting your assets is necessary to ensure your estate planning and philanthropic goals are met.

At risk are both your current assets and future earnings potential. You've most likely become accustomed to a very comfortable lifestyle, and your current earnings may be necessary to continue "feeding the machine" for years. While most people do not like considering and paying for insurance, peace of mind and financial support are usually worth the cost when needed. Insurance to replace income upon death or disability should, at a minimum, be priced out. On the liability side, families with significant assets could be targets. To cover extreme cases of catastrophic liability claims, umbrella insurance policies, which are inexpensive and easy to obtain, should be considered.

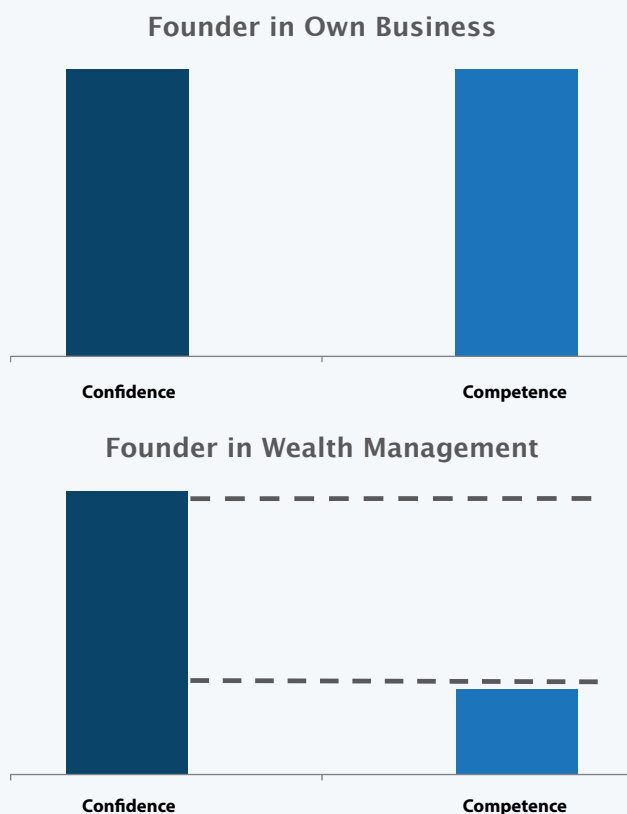
With your estate plan finalized and all risk management gaps filled, it is natural to start thinking about philanthropy for economic benefit and personal satisfaction. At this time, you may be receiving requests from local charities, non-profit boards you sit on, and even local schools for donations. While using cash is easy, there are more tax-efficient ways to give to these organizations.

As your balance sheet grows and your estate plan evolves, charitable planning may become more prominent in your thoughts and discussions with others. While there are many techniques one can implement when it comes to giving to charity, the most important thing is understanding exactly what you are trying to accomplish. For example, is a significant one-time gift now or at death the way to go? Or is a smaller annual gift in perpetuity better? Is it appropriate to include a formal bequest in your will, or should you give yourself flexibility by merely verbalizing your intention? Because there are many ways to implement a charitable giving program, the most important thing is to plan with a clear understanding of your goal.

How should you think about your investments?

The most lucrative investment you will ever have is the ownership in your company. Reinvesting profits in your business has the potential to make many multiples in a relatively short period of time. This provides a unique opportunity for wealth creation. However, as distributions are paid out, building a portfolio of stocks, bonds, and private investments is sensible, as it diversifies some of the concentrated risks in your company and establishes a reserve fund to backstop against periods of economic distress.

Even the strongest savers aren't immune from the risks of a poorly managed portfolio. Reacting to news and making emotional investment decisions can be pitfalls for otherwise intelligent investors. Being a successful creator and leader, you may believe you can beat the public markets consistently. In behavioral finance, this is called overconfidence bias and can lead sophisticated investors to take excessive risks that erode returns. History continues to show us that beating the public markets after fees and taxes is a very challenging feat. Whether one outperforms the market or not, even the best portfolio managers should not ignore the power of systematically adding to their portfolios. Combining a disciplined savings plan and an optimally managed portfolio separates the hyper-successful from the rest.



Helping investors stick to a plan is critical.

There are two schools of thought when allocating capital to stocks and bonds: Tactical Asset Allocation and Strategic Asset Allocation.

Tactical Asset Allocation is adjusting a portfolio based on short-term market movements or economic forecasts. This approach aims to exploit market inefficiencies and beat the market. Unknowingly, many people fall into this category when they manipulate their portfolios based on economic and geopolitical news. Research has repeatedly shown that such moves are counterproductive over time.

Strategic Asset Allocation sets a target based on the investor's unique situation and then periodically rebalances the portfolio through all market conditions. This requires deliberate portfolio construction, discipline, and an investor's ability to focus on a longer time horizon. Strategic asset allocation may seem too simple since you have experience in more intricate investments. While this strategy may imply simply buying and holding an index, it is quite nuanced when done properly. For example, as previously mentioned, personalized indexing is one way to enhance after-tax returns. Additionally, the customizability of a personalized index allows investors to tilt their portfolio towards evidence-based drivers of higher expected returns, such as value, profitability, momentum, low volatility, and small size. The same tailored approach should be applied to your fixed-income portfolio.

As someone who has given everything to their business, investing outside your company may be difficult. However, having a portion of your assets in a well-constructed portfolio of public and private securities can provide acceptable returns and liquidity. This diversification is pivotal to growing and protecting your wealth.

Who can help?

A miss in tax management, estate planning, or investment management could be disastrous.

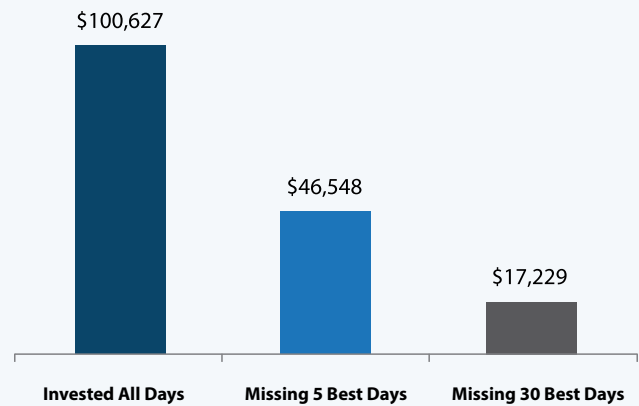
Building a strong team of trusted advisors is essential. Working with a proficient CPA is needed to sort through K-1s, ensure no deduction is missed, file in all necessary states, and make tax projections. At your tax rate, every dollar counts. On the estate planning side, it is necessary to have a competent attorney who can understand your intentions, communicate clearly, and accurately draft the needed documentation. The wealth advisor ties all of this together. In addition to investment management and financial planning, the wealth manager leads the team of professionals and continuously collaborates with them on your behalf.

⁵Source: Wells Fargo- The perils of trying to time volatile markets

⁶Source: Vanguard: Investment Advisory Research Center – July, 2022 – Putting a value on your value: Quantifying Vanguard's Advisor's Alpha®

Hypothetical growth of \$10,000 invested in the S&P 500

February 1, 1994 through January 31, 2024



You have the intellect to construct a portfolio of stocks, mutual funds, and ETFs, but true wealth management isn't just assembling a basket of securities. Behavioral finance and removing the emotion from investment decisions are also huge components. One popular study showing the power of staying fully invested in the market is very compelling. Over the 30 years ending 1/31/2024, the S&P 500 returned 8% annually. Missing the ten best days over that period reduces the annualized return to 5.3%, and missing the 30 best days reduces the return to 1.8%.⁵ Of course, missing the 30 best days is unlikely. Research shows that the big-performing days often follow a sharp selloff and that just a few days drive much of the index's annual gain. Helping investors stick to the plan is critical. As with top-performing private fund managers, the right wealth advisor adds tremendous value. Vanguard's research shows that advisors can add up to 3% of value per year.⁶

As you accumulate wealth, before hiring a wealth manager, you should ask yourself the following questions:

- Do you enjoy taking time away from your company for investment research?
- Because your situation constantly evolves, is ongoing financial planning something you look forward to doing?
- Do you like spending your free time staying current on the tax code to capitalize on opportunities?

If you answered yes to the above questions, you may be one of the few who can manage your wealth properly. If not, Ullmann Wealth Partners has an experienced group that works specifically with individuals like you: hardworking, time-crunched entrepreneurs with a net worth greater than \$5 million.

About Us

[Ullmann Wealth Partners](#) Ullmann Wealth Partners is a leading wealth management firm dedicated to helping high-net-worth individuals and families achieve their financial goals. For over 20 years, the firm has delivered advice and personalized solutions in investment management and has provided guidance in advanced planning by working closely with the client and their other trusted advisors.



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