



Family Wealth Institute

Life After the Sale

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It is the entrepreneur's dream. You've spent years building your business, and the date has come when you are thinking of selling it. The price may be too great to ignore. Perhaps you just want to travel and smell the roses. The sale creates liquidity, maybe for the first time. Of course, there are many other ways you might experience this phenomenon, from sudden inheritance, divorce, or even the lottery. But the most common circumstance is the sale of the family business or a large concentrated holding in a public company.

Liquidity creates opportunities

- It enables you to change from an active to passive wealth creator. Let someone else do the work!
- You have the chance now to diversify your investments. Economists have calculated that up to **90%** of your financial results will depend on how well you have followed this principal.
- The flip side of performance is risk. But if you are properly diversified, you minimize your downside exposure. The older you are, the shorter your future investment horizon. Thus, it becomes increasingly important to protect against loss of principal.
- Managed well, liquidity enables the wealth owner to create consistent cash flow, often a higher priority at this stage of life than accumulating more wealth.
- Liquidity enables the wealth owner to provide for other members of the family. It is certainly more fungible and easier to gift to children, grandchildren, parents and others than stock in a business.
- With the pressure off and the check cleared, many wealth owners now find both the time and the capacity to support their favorite charities, contribute to a donor advised fund, or even establish their own family foundation. Philanthropy is often the big winner upon the sale of the business.

But, there are many challenges as well

- Substantial available cash may be a very unfamiliar commodity. Many entrepreneurs experienced years of cash flow crunch, as resources were poured back into the business and family



responsibilities absorbed much of what was left. There was often little time to focus on how to invest the remaining cash, so this got little attention.

- Until the liquidity event, there may have been little need for seeking or using the most sophisticated financial managers and advisors. Now that the cash is here, one of the first tasks is to identify, compare, select, and then monitor such advisors. But there are a host of factors to consider, tools to compare and measure, and alternatives in style, fees, and strategies. So, before plunging forward with blind faith, based on well intended but inadequate recommendations, the wealth owner needs to learn how to do this.
- The liquidity event may have eliminated the need to continue in business, but it doesn't eliminate the need to remain intellectually engaged and active. Those who transition from active business to active retirement generally experience greater enjoyment, better health, and longer life. But we often prepare more for our two week vacation than we do for this phase of our life.
- It may seem odd, but the entrepreneur is often so identified with his or her career and so connected to business colleagues that it becomes difficult to create a new personal identity and relationships outside those circles. Those who have formed friendships beyond their industry and company, participated on boards of charities and civic organizations, and established personal hobbies and pastimes, transition much better.
- With liquidity often comes a surge of pleas from family members, who hope or even expect some help. Managing these expectations may seem unpleasant, but it is absolutely essential. If your liquidity has come from your personal accomplishments, you will recognize that your pride and self-esteem is the result of these efforts. It is not very satisfying to win a race you've never run.
- Finally, with liquidity comes the most elusive of all assets...time. Learning how to spend that time, in a way that is stimulating and enjoyable, may be the toughest challenge yet.

We can't give you the ideal blueprint for this phase of your life, but we can offer some concepts for you to think about.

- First, if you can, plan before the event occurs. The pressure is less and the time you spend will be well worth it.
- Set some personal targets and goals for yourself. You are more likely to get where you want to go if you know where that is.
- Your financial success makes it both timely and compelling for you to revisit your estate planning. This is an opportunity to consider how your wealth can help your children not hurt them, motivate them not de-motivate them; reward them for hard work and personal achievement and not for indolence and dependency.
- Your success does not guarantee success for your children. Be sure that they have the financial and life skills that each will need to achieve their personal potential.



- Your success in business was likely due, in part, to the talent of those in your company and those who helped to guide you. Be sure you gather talented, experienced, and dedicated advisors around you to help in this new phase of your life.

Enjoy your success. You earned it.

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At the First Foundation Inc., we are concerned not just with the tax and economic consequences of wealth planning, but with the impact of that planning on the lives of those for whom the wealth was intended to benefit. Our planners, investment advisors, bankers, and trust officers see the results of both effective and ineffective planning. We are pleased to offer you our insight, experience, and perspective.

To contact the authors, please call the toll free number at 866-833-1112.

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