

YOUR PROTECTED ILLIQUID ASSET, YOUR BUSINESS

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In today's economy, many business owners are looking to cash in the value of their business because profitability and valuations are high. If your business is healthy and strong, it likely represents the most valuable asset / holding in your overall personal portfolio today. Because of that, whether you are looking to cash in during this strong economy or you are thinking about holding onto your business for more than the next few years, it makes sense that you look after your largest illiquid asset and consider the timing of a potential exit. Let's begin to put this in perspective by looking at an overall picture of wealth.

Business Owner Wealth

In the world of 'wealth' there are five primary asset classes - they are:

1. Stocks
2. Bonds
3. Cash
4. Real Estate
5. Privately held businesses

Business owners tend to concentrate their wealth in their privately held businesses, creating an overall portfolio that is not diversified and is highly dependent upon the success of one asset - the business. It has been said that "in order to get wealthy, you need to own a lot of one (1) asset, but to stay wealthy you need to own many different assets". For the most part, you want to diversify your wealth into many different areas - that is, diversify- in order to protect your wealth against a drop in value in any one category - this is particularly true if you believe that a recession may be near.

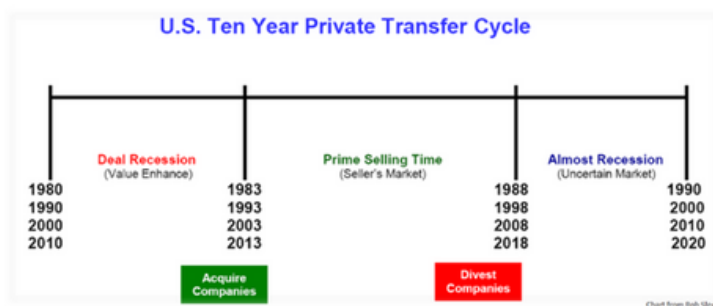


Market Cycles

If you believe that we are heading into a recession in the next few years and you are interested in protecting your largest asset, you may be well served to ask how well your business expects to perform during the next recession. From there, you may further consider whether you should 'stay and grow' or start planning and executing your exit on an expedited basis.

Markets run in cycles and, when businesses perform well because of favorable economies, valuations are high, employees are engaged, and – often times – buyers / investors have a high degree of interest and activity.

As the chart below indicates, the last three (3) decades have followed a similar market cycle and this decade is following suit.



After a long bull run, we are in a period of uncertainty, and, perhaps nearing the end of this current cycle." It may or may not, but most agree on two (2)

important points – First, that another recession will appear, and second, that the drop in the economy happens a lot faster than the slow build-up of growth.

Is Your Business Recession- Resistant?

The wealth concentrated in your privately held business may fare differently than your other assets in a recession. The important question to ask yourself is "will my business sustain less damage to its value than other assets in my portfolio during the next recession?"

Based on the answer to that question, you may also ask whether you are better off with an exit today to shift assets to less risky categories (i.e. from illiquid to cash or cash equivalents).

Some History of the Last Recession is Helpful

Think about it this way: in October of 2007 the Dow Jones Industrial Average was at a peak exceeding 14,000.

By February of 2009, it had dropped more than 50% to less than 7,000 [Gerald P. Dwyer, Federal Reserve Bank of Atlanta, Sept.9,2009, <https://www.atlantafed.org/cenfis/publications/notesfromthevault/0909>.] Therefore, any allocation of your wealth that you had in this broad market had been cut in half. The markets have now recovered fully and are surpassing prior high-levels. Is your business also on the same growth trajectory? How is its performance compared to that of liquid securities?

The Nimble Nature of Small Business

Many publicly traded companies are subject to market swings. These businesses are subject to the winds and the storms created by the economy.

Simply put – and generally speaking - small businesses are less subject to many market swings than larger companies. They are more insulated. Small businesses are able to fly underneath the radar and make quick changes that large companies

cannot make. By having your privately held business ‘beneath the surface’, the value of your company may be able to avoid the strong winds and storms that a recession can bring.

Where an Exit Plan Fits Into Your Wealth Planning

By designing an exit plan from your business, you can take back control over the loss of wealth that may occur in the next recession. By establishing such an exit plan, you can begin to take comfort in the fact that your business value may likely hold up stronger than your other assets during the next recession. Alternatively, you may learn that now, while your profits and company value is high, may be the best time to execute an exit.

You are likely to conclude that an exit plan for the protection and realization of your illiquid business wealth is the strongest path towards reaching your personal goals on a time-frame that works best for you.

Are you ready for next steps?

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