

TAKING STOCK: BUSINESS OWNERS, HERE'S HOW TO MAKE YOUR PORTFOLIO WORK FOR YOU



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BLOG POST

April 8, 2021

No one knows better than a business owner that the best laid plans often go astray. The experience of the pandemic brought this home in 2020, as owners of operating businesses scrambled to manage expenditures and liquidity in a radically transformed economic landscape.

At NEPC, it is common for us to help clients through tumultuous times by examining ways that the owner's investment portfolio can be reconfigured to address challenges from an operating business. Here are some of the strategies we use to help owners align the needs of their operating business with their overall portfolio in challenging environments.

TOGETHER BUT SEPARATE: A HOLISTIC APPROACH TO YOUR BUSINESS AND PORTFOLIO

Investment portfolios and operating businesses are often viewed separately, but the same factors that may impact your investment portfolio can also influence the profitability of your business and your overall financial security. When we work with clients who own operating businesses, our first step is to examine where this overlap may exist and what it looks like.

While we leave the details of running your business to you, we typically have expertise around factors that can impact the performance of your business. That allows us to think about the potential overlap in exposure to key risks and suggest changes to manage that risk. For example, if your operating company is exposed to the healthcare industry, it may make sense to limit healthcare exposure in your portfolio.

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Of course, the opposite can be true – sometimes it makes sense to expand investments in industries where the business owner has a tremendous depth of knowledge. Our goal is to understand the redundant risks and exposures, so our clients can make informed decisions about balancing risk and opportunity across all their ventures. The combination of your insights and ours can be a powerful way to understand and mitigate risk in any market environment.

USE YOUR PORTFOLIO AS A CONTINGENCY PLAN

When your business operations are threatened, it is natural to focus your attention on keeping it afloat and thriving. With the right planning, your investment portfolio can act as a valuable resource to help you maintain the success of your business. Strategies to consider include:

1. Prepare a plan to strategically ratchet down your portfolio risk when your business risk increases. Having that contingency in place can prevent you from having to rethink your entire wealth at a time when your business needs to be your focus.
2. Make sure there are always some assets in your portfolio that can be made liquid without taking on excessive pricing risk or taxation cost. Knowing that you can make an investment in your business during a cash crunch gives you options for managing your business without derailing your overall investment portfolio. When it's needed, we can help you reset your portfolio strategy to account for business liquidity needs and rebalance when circumstances improve.

As a business owner, you may need to tap into your portfolio occasionally to keep your business afloat during times of financial stress. Of course, you can also use portfolio assets to take advantage of opportunities to grow your business, for instance, a strategic acquisition.

KEEP ONE EYE ON THE LONG TERM

When a business is under duress, it is often an all-hands-on-deck situation. This is understandable as, more likely than not, the success of your business is the source of the wealth and financial security your family enjoys. But as you make short-term decisions to protect your business, you will need to have a strong grasp of their long-term impact on your family's wealth.

Our role at NEPC is to preserve and grow that wealth for generations to come. When business needs require you to stray from your long-term portfolio asset allocation, we will address the short-term needs but remain focused on your longer-term goals and assess when to return the portfolio to its long-term plan. In addition to the analytical work of quantifying the risk and return potential in your overall portfolio, we can also tap our research team for its expertise and insight. This actionable intelligence can not only help you make smart decisions today, but also ensure that your investment portfolio adapts successfully until your business concerns are managed.

Of course, as your business continues to succeed, and your portfolio is infused with cash from the business, we will work with you to evaluate and rebalance your portfolio.

TAX IMPLICATIONS

While every client's tax considerations are unique and dependent on their business structure, it always pays to work collaboratively with your investment consultants and tax advisors to mitigate tax issues.

Generally, your operating business will be the primary driver of your tax situation. However, there are cases where short-term losses from a business can be used to optimize tax exposure in the portfolio. For example, the tax penalty normally associated with rebalancing moves can, at times, be offset by losses on the business side. Potentially, the reverse situation could also work in your favor, which is why coordinating tax management for the portfolio in the context of what's happening in the operating business can be valuable.

TALK WITH US

In stressful times, it's important to reassess your wealth plan. Sharing your insight about market conditions and being transparent about the impact on your business makes it easier for us to coordinate an adequate response to risks and opportunities. You can count on our experience and tools to help preserve your family's financial strength. Linking your business skills to our portfolio management approach makes them both even stronger.

DISCLAIMERS AND DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

The information in this report has been obtained from sources NEPC believes to be reliable. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

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