The Wealth Optimization Process

by Josh Patrick

Controlling your wealth should always start with a thorough understanding of your values and goals. Make sure all the planning is done from your point of view

Introduction

As a business owner you are faced with a variety of competing strategies you can pursue. Often the decision for which strategy you pursue will be based on which of your advisors has your ear at the time you are making your decision. I would submit that many of these tactics that are put in place by advisors are inappropriate based on the long-term goals the owner of the business may have. However, the advisors for the owner of the business may not know what the long-term goals are because the owner of the concern has never articulated those goals. If the owner has a clear strategy that they understand, then the owner and all of their advisors will have true guidance for which tactic along the way makes the most sense. Unfortunately, getting clarity on the owner's goals is not always easy.

Many times the family head knows they should be making long-range decisions, but they don't do so. I believe the reason this happens is because they are not really sure what their financial and emotional needs will be in future years. In addition, they have not thought about some key issues such as:

- How will I leave my business?
- How much money will mean financial independence for me?
- What will I do after I leave the business?
- What role do I want to play in my children and grandchildren's life?
- What sort of legacy do I want after I'm gone, both from my business and my general life?

These and other questions if they are not answered will keep you from adopting tactics and strategies that can provide great long-term value to you, your family, your community and your business. As a result of this, I have come to believe that before you embark on any serious planning, you will need to develop a great deal of clarity about what you want out of your life, both personally and professionally.

One of the problems with the planning process is that we may concentrate on areas that are not appropriate at that particular time in our life. If, for example, we go to an estate-planning attorney, they may want you to make irrevocable gifts, which is a great strategy for reducing your taxable estate. However, because you don't know if you can afford to make the suggested gifts, you may decide not to take the step that is suggested.

We find that everyone we work with needs to understand where their financial needs are first, then figure out what they want to provide, if anything, for their children and grandchildren, and then work on what they would like to provide for their community in the form of taxes or charitable contributions.

The Concept of Social Capital

If your business is reasonably successful, you already have the "privilege" of paying taxes, and lot's of them. As you go through your planning process, you hopefully will come across an advisor who understands and works with you to understand what the concept of Social Capital is and how it can benefit you, your family and your community.

Assuming that you have achieved a level of success, you already have a silent partner in your business and life. That of course is the government waiting for their piece of the action. Since this is capital that you eventually will not own, you have to decide on whether you and your family would like to control this capital for good deeds in your community. This control is the essence of the concept of social capital.

Since you will not own a portion of your assets forever, you do have the opportunity to control those assets in the form of how they are used. So, if you want to control all your assets, it becomes an important thing for you to learn how you can work with your social capital and start learning the techniques that are available for you in understanding these issues.

Our game plan

This article will give you a road map of the steps you can take to gain clarity about the life questions you should be asking yourself before embarking in a strategic planning process. Since you own a business already, and have put a tremendous amount of effort into making the business a success, the process described below can help you first understand what you want out of your personal and professional life and second put together a strategic plan that works 100% from your point of view.

Your advisors will have a roadmap of what you want. They can then work together to choose the appropriate tactics to use in helping you achieve your goals. Also, since you will have clarity on what you want to accomplish, you will have the ability to evaluate every suggestion as to whether it moves you towards your goals in a logical manner.

Understand where you've been and where you want to go

When I first meet with new Clients, I like to ask the following question: "If we were to get together three years from now, what would have to happen for you to feel happy with your personal and business progress." This question starts us on the process of doing some forward thinking about where we want to end up and what would make us happy once we got there.

After spending some time on this question, we then want to begin our first step in the discovery process. This is the interview portion of the work that we suggest everyone do. The goal for the interview is to get a personal and family history of what got you started along your path and what has made you successful in getting there. We often find that one partner in a relationship will have one set of guiding principles, while the other partner has a completely different set. However, in successful relationships we will more often than not find the two partners have very similar guiding principles of life.

During the interview process we will often make a tape and then have transcripts made and reviewed by the participants in the interview. We do this for several reasons. Among them is a chance to review and mark what is important in your life; second it allows the facilitator to review the conversation for things they missed along the way. I'm always amazed at how many major pieces of information I can miss if I don't have a transcript to review.

The purpose of this conversation is to start building a baseline for the long-term goals you will want to have. Again, because you are the owner of a company, your goals will most likely have a higher level of complexity than a person who works for another person. The reason for this is that your major asset is most likely your business. Deciding how you want to ultimately handle your business is a decision that should not be made lightly, nor should it be made in a vacuum.

The family history allows your advisory team to start to understand your wants, goals and motivations in your business as it relates to the rest of your life. It also allows your team to keep you right at the center and come up with ways for having your business work for you in helping you achieve your life goals. Without a clear understanding of your ultimate goals, your advisory team may make suggestions along the way that will actually work against your long-term goals because of faulty assumptions.

The questionnaire process

At the same time we are doing the interview, you and your significant other are completing a questionnaire that will give us information about specific attitudes you have about your life and goals. We want to take these questions and convert them to a series of affirmations that both parties can agree on. The planning affirmations give your advisors a road map and again help them and you see clearly what your goals and objectives are.

We often find that during the affirmation development process one of the partners in a relationship will have different goals from the other partner. It's crucial that these differences are discussed and both parties come to an agreement about which direction they want to move. Again, we are working towards gaining clarity about long-term goals that give you the freedom to take actions that can add massive value to your business and personal life.

Some of the areas we believe are important to delve into are:

- How did you develop your wealth?
- What role does your partner play in your wealth?
- How do you want to handle any excess wealth as it relates to your children?
- How do you want to handle excess wealth as it relates to your community?
- How do you feel about the amount of wealth that you have accumulated?
- What personal values are most important to you at this time in your life?
- What is the best definition of financial independence for you?

After developing the answers to forty questions like the ones above, we then want you to review the answers to your questions and make sure what you first said is what you still believe. Often you will want to make some changes on reflection of what you originally said.

The last step of this part of the process is the negotiation process. Here we want to have both partners in the relationship work together to come up with a common set of goals and affirmations. This again allows clarity of purpose that sets a tone you and your advisors can use in developing plans that support your purpose in life.

The Goal Profile, putting your wishes on paper

In this third section of our profile, we ask you to develop a wants and wishes list of how you want to spend your money and how you wish your assets to be used during your lifetime and beyond. Part of this portion of your development work is factual information and part is things you would like to have happen.

The first step you will take is to figure out what you want financially for your life. This includes developing a list of where you spend your money currently, a list of things you want to own that you don't own right now and finally a list of things you want to spend money on for special projects such as family vacations. Remember, in most instances you will want to take care of yourself first, and others second.

I have not met anyone who wanted to be just financially independent and run out of money the day they run out of life. For this reason, you will want to put some safety factors in this part of your planning. We suggest that you do this in several ways. Among them are:

- Discounting the value of your business.
- Adding a cushion to the total wealth needed. (Most Clients choose a twenty percent safety factor.)
- Making sure you use realistic growth rates for your business as well as equity investments.
- Using tax rates that are your marginal rates for planning purposes.

The second step of the process is developing a set of goals for what, if anything, you want to provide for your family. Again, we first look at ongoing income needs, if any, you want to provide, any specific assets you may want your family to own and finally, special funds programs that you might want to use for paying for higher education, medical expenses, a family venture fund or any other funding need you may want to provide for your family.

The third part of the goals process is to start thinking about social capital and how it fits into your specific situation. For many business owners taking care of their families and community is not even on the horizon. However, it's important to start thinking about both issues because if you are as successful as you would like to be, both these issues will raise their head.

When taking part in the goal process, it's important to realize that these are just that, goals. Because you have spent a significant amount of time developing a personal history and affirmation, the goals will often flow very easily. For this reason, we always suggest that goals are prepared shortly after going through steps one and two of this process while the information is still fresh in your mind.

The financial blueprint, the final step

Now that you've developed a family history, have affirmations and goals in place and have decided what is appropriate for you, your family and your community it's time to see if it all fits together. We call this stage the blueprint or the reality test.

The blueprint first allows us to test for financial independence. If we have not achieved financial independence in our life, then it's not appropriate to go past this stage in my opinion with the exception of education planning for your children. Business owners who have not achieved financial independence, first need to concentrate on this part of their life before doing any serious estate planning or gifting to Charities.

Unfortunately, many advisors will start their Clients down the path of serious planning before the Clients have reached financial independence. Many in the advisory community may make assumptions that the Client has reached financial independence, when in fact that is not the case. In many instances this will cause serious problems down the road when you want some of those assets back, but are not able to use them for your personal use because of the irrevocable nature of wealth transfer planning.

The problem with estate planning from the business owner's point of view is that effective wealth transfer planning often requires the permanent separation of you from your money as soon as possible and forever. Since most wealth transfer plan's goals are to get assets out of your estate and avoid taxes, it is first crucial to understand where you stand on the achievement of financial independence and control. You also will want to understand how ownership and control are two different things and why ownership may not be important in your life, but control is.

We find there are three stages people go through in the development of financial independence. The three stages are:

- The accumulation phase.
- The maintenance phase.
- The distribution phase.

Most people who are still operating a business believe they are in the accumulation phase. This may or may not be true. The only ways to tell this is through an analysis of your needs and wants and compare these to what you actually have. As mentioned above, you certainly don't want to run out of money before running out of life. However, it also may not make sense to have 150% of your needs and do no planning for the other goals you have developed in your life.

Once you have achieved financial independence, you will want to go through a period of time where you maintain this independence. Since most people who develop and run their own business have struggled for years to see some light at the end of the tunnel, they often will not believe they are financially secure for several years after actually achieving this independence. In other cases, they have not realized they have achieved independence and because they have not gone through a process of discovery, they have not taken steps to achieve other goals that may be important in their life.

The final stage of working with financial wealth is not only the achievement of financial independence, but also the realization that you have accumulated more than you want or need for your lifetime, with a large safety factor. At this point in your life, it will make sense to start implementing strategies to achieve your long-range financial and personal goals.

The financial blueprint takes your present financial information and puts you in one of the three areas described above. If you have not yet achieved financial independence, then all your strategies will be focused on doing just that. However, if you have achieved financial independence, you will need to have some way of feeling comfortable that you have. We find the process we've described above will help you do just that.

Conclusion

The wealth discovery process is one that needs some forward thinking on your part. First, you will want to know what the drivers are for your life, next you will take inventory on what you want and finally, you will see where you are along the continuum of financial independence. I believe that following this order puts your priorities in line with what you want to achieve in life.

First, by putting together a history of where you've been and how you got to where you are, you are acknowledging the people and things that helped you along the way. Second, by having a set of goals and affirmations, you now have gained clarity with what you want. Third, having set specific goals about what you want for yourself, your family and your community starts to make the plan real. Finally, developing a blueprint it will show where you are financially in achieving your family goals. This is what will allow your advisors to make appropriate suggestions in helping you achieve your long-term goals and objectives.

For More information contact Josh Patrick
at 802-846-1264 or email to: Jpatrick@patrickgroup.com

The PatrickGroup

20 Kimball Avenue - Suite 201 - South Burlington, VT 05403