

## **What is the Real Value of Your Business?**

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### **Executive Summary**

“In every enterprise, consider where you will come out.”

Publilius Syrus – First Century B.C.

Research by McKinsey revealed four essential skills leaders and business owners exhibit and practice. They seek different perspectives, solve problems effectively, are supportive, and operate with a strong results orientation. They are in two words, servant-leaders.

As servant-leaders, they are interested in growing their business and estate. They understand the value of thinking over multiple generations. They use their four essential skills to achieve and maintain balance among all their business, family and ownership issues.

They take care of themselves first. One example is they make sure they don't have 90% of their wealth tied up in their business. They take time to engineer a better business to maximize and preserve their most valuable assets; their time, treasure and talent. They make sure their exit plan explores all possible scenarios.

Successful business owners consider five end-in-sight or endsightful questions. What is my 90-year strategy for my business and estate? Do I want to pay more in taxes? How can I grow my estate and business value? What is the current value of my business? In the end, what will buyers pay me for my business?

We believe every enterprise can become more ideal. In the ideal, leaders know what they don't know, ask better questions, and solve their business and estate planning issues. They know buyers want proof of their leadership and consistent results. And why in every enterprise, they consider where they will come out financially!

## Who Takes Care of You?

Several years ago, I was referred by an insurance agent to a business owner in a city about an hour away from my office. When I arrived, I was escorted into his office by his assistant and then seated in a chair in front of his desk.

A few minutes later, the business owner came in, sat down at his desk, said it was nice to meet me, and to tell him what I do. To my surprise, he took paperwork from his inbox, reviewed it briefly, marked it up, and put it in his outbox.

This went on for what seemed like an eternity, but was no more than a couple of minutes. When he finally looked up at me, he said, "Why aren't you talking?"

I smiled at him, "Well, I thought what you were doing was more important than what I was going to say, so I thought I would just wait for you."

He sat back in his chair, "Ok, so what do you do, Ross?"

"Well, if you are like my other business owners, you come to work, take care of your clients, vendors, employees, and then, when they call you, your attorney, CPA, banker, stockbroker or real estate agent. At the end of the day, you go home, and take care of your wife, your children, your dog, cat, fish or bird."

"Interesting," he mused. "So what do you do?"

I paused and asked him calmly, "Who takes care of you?"

"You know, I never thought of it."

"Well, that's what I do. I know you are busy and leave a lot of things on the back burner to do someday. I help you organize what needs to be done and make sure it gets done.

In short, I help you gain more control over your time, and what's important to you, so you are free to run your business. It's the little things you haven't done that probably play on your mind, and keep you up at night."

## **The Metaphor**

Anyone who has flown a commercial airliner - and who pays attention to the pre-flight announcements - will recall that the flight attendant instructs us to do something kind of odd in case of an emergency:

**“Should a drop in cabin pressure occur,  
put your own oxygen mask on first.”**

Hidden in these instructions, each time we fly, we are reminded of this valuable lesson in stewardship. It is our view - and history repeatedly proves - to better serve our families, businesses and the people who rely on us, we may need to take care of ourselves first. What works on airplanes in safety rules also works in business and estate planning.

As leaders, in most areas of our lives, we decide where we are going and then how to get there in the most effective manner. Along the way, we may ask for advice, explore our options and opportunities, and adapt to changes as they unfold. And be assured, change will always unfold.

## **As With All Else - It is Our Choice**

Choices are critical.

What is more critical is that we make them - and act on them. In this case - a choice of destination. Today, with the latest tax law adjustments, couples with estates exceeding \$22 million and individuals with estates over \$11 million have both good news and bad news to review.

On the good side of the ledger - the unified credit has doubled. This means that those estates under \$22 million have no estate tax. The flip-side, of course, is the bad news. Individual estates over \$11 million and couples with estates over \$22 million are going to be taxed to make up the difference. You see, there really is no free lunch – even in death.

## **Destination #1: Maximum Taxes**

While a likely rarity, some may agree with the way tax dollars are consistently spent by the federal government. If you fall into this category, we would recommend you position your estate such that your heirs will pay as much in taxes as they possibly can, leaving them with the smallest remaining shares possible.

Yes, like we noted - it is likely a rarity.

## **Destination #2: Maximum Estate**

On the other side of the ledger, we have found those who have successfully created an estate substantial enough to pay taxes, usually feel somewhat differently about the interest of their heirs. They prefer to arrange their estate to maximize what passes to their heirs - along with what can be passed to their favorite charities and non-profits.

## **Why did I write this article for you and yours?**

You may feel some of my comments about paying taxes are a bit tongue-in-cheek. As comical as it may seem - the two choices are real - but often overlooked, or worse, not acted upon.

Read along and allow me to explain.

If everyone had a choice, wouldn't you agree that most would choose to position themselves to leave a Maximum Estate as noted in #2 above?

This is not a hypothetical. Everyone does have a choice.

So why do so many people choose Destination #1 with Maximum Taxes instead?

Life has no guarantees. At any moment, you or your spouse could suffer a stroke and—it would be too late. I've seen it happen and it's the saddest thing I know. Don't let it happen to you. Best to address these issues now while the time is on your side.

Now is the best time to complete your business and estate plan. The good news, you only have nine things to do. And I've laid them out for you in the next section.

So now that we have reached the proper altitude in our minds - above the clouds and confusion - let's explore your choices from 30,000 feet. In preparation for a safe arrival for you and yours, we share below our "Top 9 Touchstones" of Business and Estate Planning.

## **Top 9 Touchstones**

### **Touchstone #1**

#### **Update Legal Documents**

Make sure your wills, living trust, durable power of attorney, and Advance Health Care Directives are in place AND recently reviewed.

Several years ago, a husband and wife came to see me to sign some investment documents. I came to find out the wife had lost much of her vision and could not see where she was to sign. The need for her husband to sign on her behalf became very apparent. I asked if they had durable powers of attorney for one another and they affirmed that they did.

So far so good, until we called their attorney's office to secure the documents and signatures. The attorney's assistant looked up the document and told us it had expired, and they would have to come in to have it updated.

In short, the husband could not do anything on behalf of his wife without a current document. We were able to easily correct the situation, but in other circumstances, this detail could have caused serious problems.

Like taking care of your car, a little regular maintenance to your legal documents can make a big difference in your life.

## **Touchtone #2**

### **Design a Master Plan**

Develop a written master plan for your business and personal wealth to maximize value during your lifetime, prepare a desired legacy, and minimize income and estate taxes.

As a business owner or C-suite Executive, imagine what would happen if you suddenly died or became totally disabled?

Back to our airplane metaphor above.

Well, this happened to one family I knew. They owned a business and rented out most of their land. “Mom” and “Dad” had numerous pieces of property and nine adult children when Dad died in 1998. This left Mom to run the ranch and make decisions that the two of them should have made when he was alive.

Not all nine children wanted to work the ranch, nor could the ranch have supported nine families. You can see the dilemma. How do you divide the land so some children could continue farming, and others could sell their share and get on with their lives?

To further complicate matters, Mom died in 2017 at age 84 of a major heart attack while shopping in a supermarket. She had her standard estate planning documents in place such as a living trust, pour-over will, durable power of attorney, and Advance Health Care Directive.

Unfortunately, they did not address the problems of paying a \$6 million-dollar estate tax, valuing the property and dividing the ranch as described above.

One of Mom’s goals had been to create harmony among her children.

Instead, having never completed a written master plan, the family was left doing the best it could under far less than ideal conditions. They were still mourning the loss of the parents.

Particularly when complex inheritance issues exist, it’s well worth taking the time when everyone is healthy and happy to prepare for the future with a comprehensive, integrated written plan.

## **Touchstone #3**

### **Know, Understand and Sign Your IPS**

Like the US Constitution, an Investment Policy Statement (IPS) will be your guiding document to keep you and your investment advisor mutually accountable.

Most people do not have an IPS. They only have their risk tolerance profile and the fee agreement from their broker. As noted earlier, servant-leaders seek different perspectives to solve their issues. The better perspective is to know, understand and sign your IPS.

As a wealth management advisory firm, we believe the best investment decisions are made in coordination with a fiduciary advisor connected to you through a comprehensive written plan to guide your strategy (which we'll turn to next).

An IPS helps you focus on matters you expect to control, such as how you plan to:

1. Capture expected market returns to fit your goals and risk tolerances,
2. Stay on course with your personalized plans, and
3. Minimize fees and taxes.

A well-written IPS can guide you to make more informed investment decisions.

## **Touchstone #4**

### **Avoid Active Management - Apply the Science of Evidence-based Investing**

My best advice and lesson learned in my career is simple. Don't try to play the market by picking individual stocks. Instead, use the science of evidence-based investing to participate in the market. Nearly everyone I have ever met has wanted to make smart decisions with their money.

Most often those "smart decisions" usually translate to believing that they (or their hired guru) have what it takes to dodge the stock market dogs and to pick the darlings.

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Unfortunately, it is impossible for you, your broker or anyone else to consistently forecast and predict the future, and then overcome the trading costs involved when you try.

Truly smart decisions come from becoming an informed investor and heeding the evidence on how to build personal wealth tax-efficiently in volatile markets. You may know a lot about real estate, running your own business, acquiring a collectible of interest and more.

But do you know (or can your advisor tell you) what you hold in your accounts, how much risk you are taking, how it has performed over the years, what costs you've incurred, and where gaps or overlaps may exist in your exposure to expected market returns?

When you take care of yourself first, focus on managing your concerns by building and sticking with an efficient, low-cost portfolio customized for your personal willingness, ability, and need to balance market risks and rewards. Leave the stock picking to those who like to gamble instead of prudently investing their wealth.

## **Touchstone #5**

### **Protect Yourself and Your Family**

In life, there are no "do-overs." I believe we can be better stewards for ourselves and others. There are three keys to the value of this touchstone.

1. Manage the risks,
2. Protect your family, and
3. Review your insurance coverage.

All three keys combine to make sure your insurance provides both the benefits and protection you intended. The practical advantage of insurance is to be there when you, your family and your business require the liquidity most.

This is common sense. I am surprised by how often I find families whose coverage is a patchwork of policies gathered over the years; they have excessive or excessively priced coverage here, missing coverage there. Seldom does the whole plan harmonize with the family's total and distinct liability exposures.

Effectively understood and implemented, insurance can be a powerful estate-planning tool to address liabilities and risks like survivor income, debt pay-off, disability income, long-term care, buy/sell agreement funding, key man protection, salary continuation, errors and omissions, business succession, automobile, homeowner, and estate taxes.

A big-picture review from an objective wealth manager can bring your insurance needs into tighter focus to take better care of you and your family.

### **Touchstone #6**

#### **Discuss What Matters Most with Your Family**

How long has it been (if ever) since you and your spouse, and potentially your adult children had “that conversation”? You know the one I mean: What do you as a family own, where is it and what would be the best thing to do with it should the unexpected occur? How often do I hear parents say they are leaving their assets to their children, while the children admit they have no idea how to handle them?

Lacking any context, clarity or conversations that matter, they just want to liquidate those assets to cash as fast as they can. Too often, children are then at the mercy of some stockbroker, insurance agent or a large bank (most likely its private wealth management department) and the hefty fees they extract for the disservice of disassembling a legacy that took a lifetime to build.

Once Mom and Dad, and the IPS, are no longer there to guide the way, what mattered most may be lost forever, because those heart to heart conversations never happened.

### **Touchstone #7**

#### **Close the Gap between Your Retirement and Investment Planning**

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Needless but necessary to say, your retirement planning should go together with your investment planning. Taking care of yourself first means you established your goals and objectives to connect with your investment plan.

Most people randomly buy investments like stocks, mutual funds, limited partnerships, gold, commodities, hedge funds, and rental properties, etc., because each one looked or sounded like a good idea at the time.

I call this the “grocery cart investment plan”. Have you ever gone to the grocery store without a menu in mind or a list of important ingredients you would need to serve a meal? If you are like me, you walked down the aisles picking things off the shelves that looked or sounded good in the moment with no rhyme or reason.

“If I don’t eat something right now, I will die,” is all based on emotion and instinct.

In fact, emotions and instincts are your enemy when it comes to investing. Taking care of yourself first means you shop with your investment and retirement plans.

### **Touchstone #8**

#### **Trust and Verify**

As a business owner, if you offer any type of a retirement plan, consider delegating your investment selection liability to a professional advisor (in writing). As a retirement plan sponsor, you are a trustee and fiduciary under the plan. You can be held personally liable for a breach of fiduciary responsibility.

While you cannot delegate all your fiduciary obligations, the law governing retirement plans does allow you as the plan sponsor to delegate investment selection liability to a professional advisor who is willing to accept the duty in writing.

If you are paying someone to manage your plan for you, it seems only reasonable to ensure the firm with whom you are working is taking on that fiduciary obligation as part of the services it is providing.

## **Touchstone #9**

### **Know the Current Value of Your Business**

This touchstone is why we started this article by asking endsightful questions. What is the current value of my business? In the end, what will buyers pay me for my business?

My clients know that I take care of them so they can take care of their business and families. One way I take care of them is to give them facts about how they compare to others.

For example, were you aware that only 2% of private business owners know what their business is worth? In addition, 78% of business owners want to fund their retirement when they monetize their business, and 9 out of 10 business owners are either underinsured or have no insurance.

Yes, it's true. Knowing the true value of your business today is critical to your proper business planning and achieving your personal goals. So is protecting it.

I worked with two shareholders in a company who worked well together for years. They decided to bring their two sons into the business, and both had little to no experience.

Even with a buy/sell agreement in place, they never funded it with insurance if one of them was to die. They always said it was too expensive. Unfortunately, one of them died of cancer. He left his 50% interest to his spouse who had no experience running the business.

The surviving shareholder was now in business with his deceased partner's wife and he had no ability financially to buy her out. The surviving spouse was now at the mercy of the surviving shareholder to continue the operation of the business.

The recommendation was to get a valuation of the business and sell to an outside third-party buyer. During the valuation process, and finding potential buyers for the business over the next year, the second shareholder also died of cancer.

I will never forget these words from one of the sons, "What's the backup plan?"

Sadly for the families, as successful as both fathers were in business, they failed to have a funded backup plan to protect their estates and prevent complications for their families. Believe me, nothing good can come from an incomplete business succession plan.

## **Top 10 Reasons for Business Valuation**

Now you understand why what I do is so important to my business owner clients and their families. Knowing the real value of your business today is essential to prudent business planning. As many of my clients ask, can I just check the boxes to get this done?

Yes. Here are the 10 boxes to check about why a business valuation is essential to your planning:

1. Better understand the potential of your business
2. Know the value of your largest asset, so you can plan for retirement
3. Ensure your business and your family are protected properly
4. Create a funded succession plan
5. Pay the right amount when you buy a business
6. Get what it is worth at sale
7. Create buy/sell agreements with business partners
8. Explore funding opportunities
9. Establish a trust or create an estate plan
10. Prepare for taxable events like estate and gift taxes .

## **Concluding Thoughts**

So there they are, our Top 9 Touchstones or Takeaways for you to take better care of your time, treasure and talent first, and then your business and family.

Be assured, I could share with you 100 more Touchstones. But if you knock off this handful for your business and yourself — you'll already have an excellent handle on you and your family's wealth and well-being.

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And you will more than likely understand now why putting your mask on first is like business and estate planning.

As I mentioned earlier, successful business owners contemplate their business exit plan with five endsightful questions.

1. What is my 90-year strategy for my business and estate?
2. Do I want to pay more in taxes by growing my business?
3. How can I grow my estate and business value without increasing my taxes?
4. What is the current value of my business?
5. In the end, what will buyers pay me for my business?

If you would like to know more about a preplanned exit strategy that might work for you, just call me at my direct line telephone number below, with no obligation of course.

I will email you the article entitled "The Owner's Trap," which has a calculator at the end where you can input data and obtain a preliminary business valuation.

In addition, I will send you a copy of my article, "The Business Owner's Dilemma." Maybe you are like a majority of my business owner clients. When I ask them how they feel about their businesses, their answer sounds like this dilemma: "Hard to live with it, and hard to live without it."

We think you should know the value of your business, so you can make better decisions about the future of your business and your retirement possibilities.

**Knowing the value of your business  
just might resolve your owners dilemma.**

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### **Ross F. Hoffman, President/CEO**

Hoffman & Associates, Financial & Estate Advisors, Inc.

Ross F. Hoffman is President and Chief Executive Officer of Hoffman & Associates, Estate & Financial Advisors, Inc. He has over 40 years of professional experience in financial, estate, and investment advising. Ross believes everyone should have the opportunity, the freedom and the best information to decide what estate, retirement, and business transition plans work best for them. He has also written articles on these topics.

Ross has earned the most respected professional designations, including Accredited Wealth Management Advisor (AWMA), Accredited Investment Fiduciary (AIF®), Certified Financial Planner (CFP), Chartered Financial Consultant (ChFC), and Chartered Life Underwriter (CLU). He earned his undergraduate degree from UCLA, attended the U.S. Army School of Finance, and the Center of Fiduciary Studies at the University of Pittsburgh.

Ross is an accomplished speaker. He has lectured on Family Wealth Counseling, Evidence Based Investing, Exit Planning, creative uses of life insurance, charitable estate planning to professional groups including the Ventura County Bar Association and the Santa Barbara CPA/Law Society; and has taught estate and gift tax planning.

He is a former co-host of the weekly internet radio show “Conscious Investing,” and was in “Navigating the Fog of Investing,” a documentary film on the investment industry.

Ross is a prior member of Vistage (formerly TEC), an organization for CEOs, for over 25 years. They presented him the “Widest Range of Knowledge Award” as a Vistage member.

His community involvement has included Vice Chairman and Cabinet member of the Ventura County United Way, Technical Advisory Committee member for the Ventura County Community Foundation, Deferred Giving Board member for the Ventura County Medical Center, Board member of the American Lung Association, Board member of the Ventura County Planned Giving Council, Deferred Giving Committee member for the Boy Scouts of America and a past member of the Estate Planning Council. Ross was on the Board of Segue, a nonprofit, dedicated to keeping kids in school and helping them develop career paths.

Ross’s outside interests include golf, daily workouts and time with his family. He also wrote **Back And Better, 37 Rapid Recovery Exercises I Use When Injured or Bedridden.**

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