

SUCCESSION PLANNING



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After the sale Of a Business

The business has been sold. Where does the seller go from here?

Here is the scenario: You have sold your business and are now sitting on a pile of cash. What should you do with the money? In my practice, that is not really the start of the conversation with clients; the start of the conversation is what you want your money to do for you.

In my book, *The Rich Life: Managing Wealth and Purpose*, I explained how money is an enabler – not an end in itself, but a means to living the life you want.

DECIDE WHAT MATTERS

I usually start a conversation about what people want their wealth to do for them in the future by asking the following: “If you can imagine yourself on your deathbed, looking back on today, what would need to happen for you to feel that you have lived your life without regrets?”

While there can be many different responses to this question, it usually encourages some serious thought and lively discussion. Do you want to be more involved in community associations for which you have not previously had time? Spend more time at the cottage? Travel? Build closer relationships with family and friends? Hobbies, sports, art collections? Do you have a favourite charity that you want to spend time or money to help?

While most people want to maintain their lifestyles, they also want to look back on healthy and happy children and grand children. Do you want to provide means to help them lead full, productive lives?

Although they may express it in different ways, what most people want is this: to live well in retirement, to give back to their families and communities, and to leave a legacy – financial or non-financial.

But the need to accommodate living expenses for 30 years of retirement and the desire to leave a legacy can put enormous pressure on assets.

THE PLAN

While everyone’s needs differ, many business owners in retirement have these two things in common: the need to generate substantial cash flow from investments, and the desire to preserve capital.

After talking through desires and concerns, there can be a more detailed discussion about exact income needs. We recap the goals, the strengths of the situation, the opportunities afforded them and any potential barriers to meeting goals. This outlines action steps to move the process to the next stage – the investment policy statement (IPS).

We translate what you want your money to do for you into an IPS, which lays out a plan for attaining financial objectives. It considers preferences and constraints expressed by a client, and includes a recommended asset allocation – a breakdown of how money should be invested in various asset classes. As well, the client receives an investment plan outlining portfolio recommendations

There is no cookie-cutter element to how best to manage clients’ money. Each client is different; each has an individual portfolio designed specifically for his or her circumstances. Unlike banking-related investment firms, my firm has no proprietary products, so there is no vested interest in what is recommended.

MANAGING RISK

Because many business owners have had their capital tied up in their businesses and not a lot of liquid assets, they are sometimes leary of putting so much money into the public securities markets. I follow the principles of diversification in all my investment planning and the recommended portfolio reflects this.

To manage risk, an asset mix is divided appropriately between fixed income and

equities. Different, carefully selected money managers are engaged to manage different portions of the portfolio.

Take the growth part of the portfolio as an example – the equities in the portfolio would most likely include Canadian, U.S., and international equities, both large and small companies, and exposure to emergin markets. A small but still significant part of the equity portfolio would be invested in alternative asset classes, such as hedge funds or market fluctuations, and real estate limited partnerships and private equity funds for additional diversification.

With different people managing each part of the portfolio, I would monitor on an ongoing basis to ensure the portfolio remains true to a client’s objectives.

PRESERVING THE LEGACY

We often combine a specialized investment portfolio with an innovative use of Insurance. Some owners have said “I’ve just sold my company for over \$100 million in cash. Insurance is the last thing I need!” Take the example of a client who had just sold his business for \$20 million. The client wanted an annual income of \$1 million to live comfortably and, in addition, wanted to leave an estate of \$20 million to his two sons.

A tall order, yes? Any financial advisor should be able to a portfolio of \$20 million and generate \$1 million of annual income. But how do you preserve the \$20 million for the estate?

Our insurance expert came up with a solution that would deliver an estate of that amount, even with the client taking the desired annual income. The client also met with an estate lawyer to devise an estate plan to ensure his wishes for his wife and two sons would be fulfilled.

In the end, it was really an understanding of more than just the money part that helped the client establish new directions both in his family life and his financial life.

For more information on wealth management advice, email Susan Latremoille at susan.latremoille@richardsongmp.com or call 416-969-3026

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