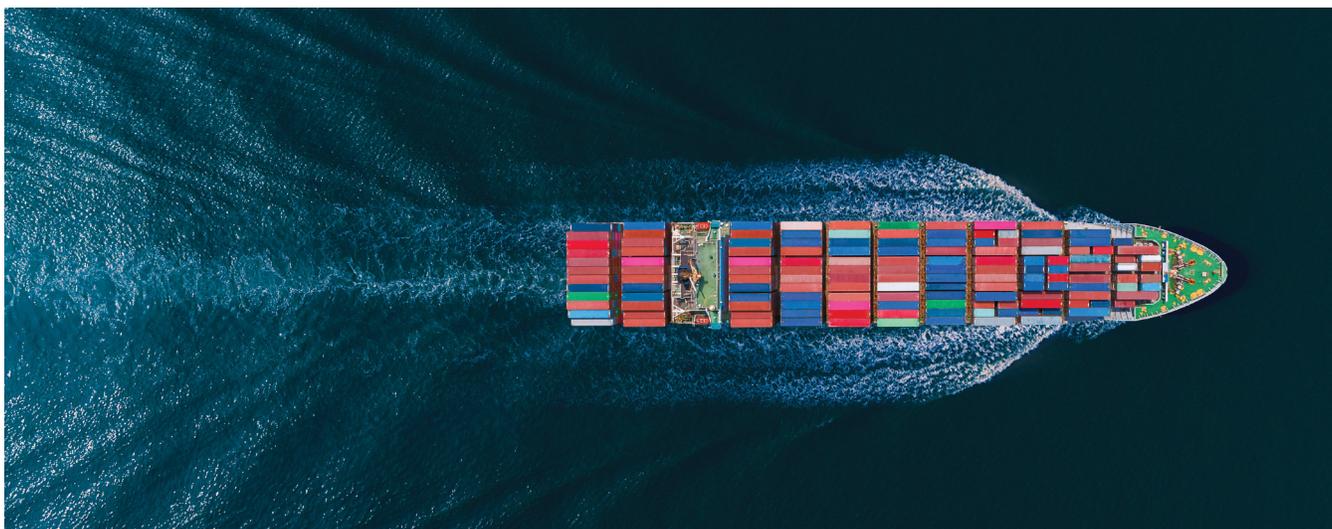


Key Family Wealth — Business Advisory Services (BAS)

Your Greatest Illiquid Asset — Your Business — and How to Maximize Its Value



Many business owners are wondering: When is the right time to cash in on the value of my business? If your business is healthy and strong, it likely represents the most valuable asset/holding in your overall personal portfolio. Whether you are looking to cash in now or thinking about holding on to your business for several more years, it makes sense that you look after your largest illiquid asset and consider the timing of a potential transition. Let us begin to put this in perspective by looking at an overall picture of wealth.

Business owner wealth

There are five primary asset classes — they are:



Stocks



Bonds



Cash



Real Estate



Privately held
businesses

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Most business owners have their largest concentration of 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, and often, the business owner. A common refrain: To get “wealthy,” you need to own a lot of one asset, but to stay wealthy you need to own many different assets. Generally, the goal is to diversify your wealth into many different areas, which helps to protect against a drop in value in any one category. This is particularly true if you believe that a recession may be near. But how — and, in some cases more important, when — should you transition your business to diversify your assets?

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 should 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 next steps on an expedited basis.

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

Is your business recession-resistant?

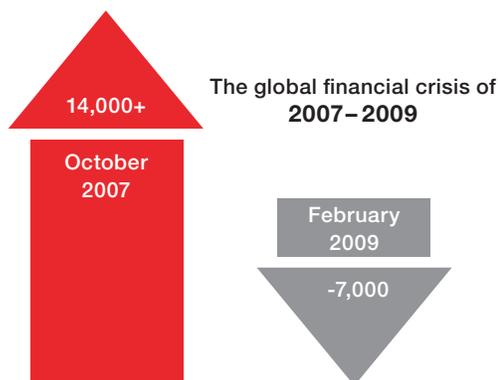
The wealth concentrated in your privately held business may fare differently than your other assets in a recession. The important question to ask yourself is, “Will my business sustain less damage to its value than other assets in my portfolio during the next recession?”

Based on the answer to that question, you may also ask whether you are better off with a transition today versus a transition a few years from now and whether to shift assets to less risky categories (i.e., from illiquid to cash or cash equivalents).

Some history of the last recession is helpful

Recessions can hit hard, and fast. The Dow Jones Industrial Average fell 30% in the first quarter of 2020 during the onset of COVID-19 and fell 41% peak-to-trough in that same calendar quarter. The global financial crisis of 2007–2009 also exhibited significant, rapid losses for stock investors. In October of 2007, the Dow was at a peak exceeding 14,000. By February 2009, it had dropped more than 50% to less than 7,000. Therefore, any allocation of your wealth in this broad market had been cut in half.

Is your business also on the same growth trajectory? How is its performance compared to that of liquid securities?



Where a transition plan fits into your wealth planning

If you design a transition plan for your business, you can take back control over the loss of wealth that may occur in the next recession. By establishing such a 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, learning that now, while your profits and company value are high, may make it the best time to plan for your transition.

You are likely to conclude that planning for a transition of your business — whether to a third-party buyer, a sale or gift to family members, or a purchase by employees — for the protection and realization of your illiquid business wealth is the strongest path toward reaching your personal goals in a time frame that works best for you and your family.

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For more information, [please call your relationship manager.](#)

The Key Family Wealth BAS team is dedicated to providing guidance and support to privately held business owners like you. Specifically, the BAS team helps owners prepare for an eventual business transition with strategies and advice on how to maximize the after-tax value of a business transition.



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