



A Winning Partnership for Business Owners

Introduction

In recent years, the financial services industry has evolved in an effort to serve the needs of history's wealthiest generation. One of the more interesting developments is the trend towards creating organizations offering a full spectrum of financial services. Supporting much of this activity has been a host of mergers and acquisitions as banks, insurance companies, brokerage houses and other megabuck firms gobble up boutiques and niche practices to help broaden their appeal. The big players are all starting to look — and sound — pretty much the same. Just listen to their commercials.

Meanwhile, bolstered by access to a mind-numbing wellspring of financial information, the public in general and business owners in particular face an enigma: who is best qualified to help us manage our business and personal finances? Do the giant firms have more resources? Do the smaller firms offer better service? Is there some middle ground that can provide the best of both worlds?

In my 25 years as a financial writer, I have interviewed almost 1,000 advisors and asset managers at companies both large and small. While I admire the financial giant's ability to remake their identities every decade or so to coincide with marketplace and demographic changes, my highest regard is for the local or regional boutiques. The entrepreneurship and flexibility necessary for these smaller organizations to effectively compete with the financial behemoths is truly remarkable. Their dedication to building and maintaining close personal relationships with their clients represents the best the financial services industry has to offer. In my experience, regional financial services firms — big enough to handle the business and personal financial needs of all but Fortune 500 companies; small enough to offer the kind of personal service Americans used to expect but seldom find anymore — are the most worthy of writing about.

When I occasionally bump into one of these agile, business-owner oriented gems, I can't resist the urge to spend some time with the people who make them run like organizational Swiss watches. It's particularly intriguing when they are located in some bucolic oasis instead of a metropolitan highrise.

One of those opportunities presented itself recently while researching an article I was writing for a financial journal. I came across a short piece titled, "Moneytalk with Your Parents," written by financial advisor Bob Mauterstock. I liked the piece so much I decided to get in touch with the author and get some comments for my article. Little did I know that interview would later lead to a full day of fascinating conversation on a variety of financial topics at KR Wealth Management in the Pond View Corporate Center in scenic Farmington, CT. It's a short drive west from Hartford, for those of you unfamiliar with the area.

The Interview

MM: Impressive offices, Bob. How many people work here?

RM: There are actually two companies: KR Wealth Management and Kostin, Riffkess & Co. LLC. Between the two there are about 150 employees.

MM: How did your partnership come about?

RM: I had been in private practice since 1990. Well, I actually began my professional career as a licensed agent with Connecticut Mutual back in 1977. I became a financial planner and Registered Investment Advisor in 1982. In fact, I was one of the first here in Connecticut to establish a fee-based financial planning practice. I formed a partnership with another agent and while he concentrated on insurance, I focused on investment strategy. In 1983, we merged with a large insurance agency and I set up an investment advisory subsidiary called Financial Action Plans. I ran that company until 1990, when I left to form my own firm. After a decade as a sole practitioner, I started to think about succession planning and what would happen to my clients if something happened to me.

In 2001, I met with an executive at Linsco/Private Ledger, my broker-dealer, and discussed my interest in finding a succession plan solution. He subsequently met with the principals at the CPA firm of Kostin Ruffkess, who expressed an interest in acquiring an investment management practice. The executive subsequently introduced me to Richard Kretz, KR's managing member.

KR is one of the largest certified accounting firms in New England. When we first discussed forming a partnership, I assumed we would simply refer clients to each another but that's not what they had in mind. They were interested not only in building an investment management business with a successful professional; they wanted to own a practice. We seemed comfortable with one another right away; it was apparent that our interests dovetailed and could be served by working together.

We agreed to become equal partners in a new entity, KR Wealth Management LLC, and I agreed to sell my business to them when I retired. I moved into their offices after the agreement was approved by Linsco/Private Ledger, my broker-dealer. The level of trust we initially felt has grown even greater in the years since.

MM: Obviously, this was not merely a stab at the investment management market by KR.

RM: Absolutely. They view this as a serious, long-term commitment to the growth of a successful investment management practice as an adjunct to their established accounting business. The partnership provides an array of diverse professional services to business owner clients of both practices. KR can now offer a full range of financial services; virtually anything business owners might need to help manage their business as well as personal financial affairs.

MM: I've encountered many CPA firms that try to expand into financial planning and investment management services, but they are stilted by their passive culture, which is tied into tax planning and preparation.

RM: Yes. I think that's one of the reasons KR principals wanted to acquire an existing investment management practice; one with a seasoned professional at the helm who has managed assets through several economic cycles. It made it much easier for them to move seamlessly into other areas of financial services for their clients, and also to assume a proactive culture.

MM: It appears that KR Wealth Management focuses primarily on the unique wealth management needs of business owners.

RM: Yes. It's a natural outgrowth of the accounting, tax and other services KR, the CPA firm, has been providing to New England businesses and their families for over a half century.

MM: Based on your interaction with business owners, what are the most pressing issues they face today?

RM: Most concerns of business owners center on intergenerational planning, retirement issues and business succession.

MM: Tell me what you mean by intergenerational planning.

RM: The coming decade will witness the greatest transfer of wealth from one generation to another in history. Estimates are that \$25 trillion or more will shift to Boomers from their parents. A big problem is that the older generation has never been comfortable discussing finances, retirement or death. Their Boomer children want to talk about these issues with their parents, but find it awkward to approach the subject; they certainly don't want to appear as though they are after their parent's money. But it's vital that the two generations discuss these issues. Not doing so can lead to dire consequences, both financially and emotionally.

Take the example of a client of mine, a business owner whose mother died 15 years ago and willed him a piece of shoreline property. She left her other son what she considered to be an equivalent amount in investments and cash. There had been no conversations between the mother and her two sons about her finances. Over the years, the shoreline property has increased dramatically in value while the brother's investment portfolio has suffered some market losses and is now worth significantly less. As a result, the two brothers have not spoken in several years, communicating only through their lawyers.

It's this lack of generational communication about finances and related issues that creates needless problems for surviving family members. I've seen it all too often in my 30 year career as a financial advisor. It prompted me to conduct a survey among my clients. I discovered that while the vast majority reported that family wealth counseling was the highest educational priority for them, only 37% ever had a family meeting to discuss their estate plans!

When there is a family business involved, the problem is compounded.

MM: What do you suggest families do to overcome this communication gap?

RM: For starters, parents should compile a financial workbook that identifies the location and details of their assets — we call it a "Life Folio." The second generation should find a trusted advisor well versed in financial and estate planning, preferably someone who holds a Certified Financial Planner (CFP™) designation and whose

services are fee-based. The children should share their contentment at getting their finances in order with their parents and suggest a family meeting, ideally coordinated by the advisor.

The meeting should be a relaxed, non-threatening environment that encourages the parents to express how they wish to transfer their assets. This opens up the lines of communication and the door to more detailed future discussions. It's a start, anyway.

MM: How would this plan relate to a family owning a business?

RM: We have a graphic representation of a succession journey (insert five rings graphic here). As you can see, the same issues that apply to any family with acquired wealth also apply to families owning businesses, but typically the picture is more complicated for business owners.

Intergenerational planning for families with businesses involves the transfer of wealth, but typically the business itself represents much or most of that wealth. I read recently that most small businesses in the U.S. do not survive past the second generation. There seems to be a disconnect between the first generation — usually hard working overachievers — and their children — often not as motivated or dedicated and with a sense of entitlement bestowed by their parent's success. As a result, many businesses flounder during the second generation and fail or are sold before reaching the third generation. Those that do make it usually have the benefit of some in-depth planning regarding business succession.

MM: That's where your CPA partners come in I take it?

RM: Exactly. They can help by providing the expert counsel on business planning and succession. Business owners should decide what to do with their companies; pass them on to the next generation, sell to an outsider or sell to a group of key employees. If there are children, are some or all active in the business? For those not, how does the patriarch provide for everyone equitably? In any case, business owners need a plan that will carry out their specific wishes and ensure the wealth they have worked so hard to build is preserved and transferred to the next generation, whether in the form of the business or in converted assets.

MM: What are the retirement issues you mentioned?

RM: The economic environment is undergoing dynamic changes, the result of a combination of forces. This generation of retirees will live longer than any previous one. People living into their 90s and beyond will become commonplace, thanks to medical advances and healthier lifestyles. They will need more retirement income, but this comes at a time when companies are shifting from defined benefit plans with guaranteed income to 401K plans, where employees are responsible for the investment choices that will fund their retirement. There is no longer any assurance of sufficient retirement income for workers who expect to live longer. In addition, healthcare costs are soaring and few have made plans to offset the increases. Only one person in ten has long-term healthcare insurance. More and more people will simply outlive their money.

There's more. People tend to overestimate the future returns on their retirement portfolio, and most plan to withdraw money at a rate that will deplete their savings well before they die. Compounding the problem is that after retirement, people tend to adopt a more conservative approach with their investment portfolios. Historic returns on fixed-income vehicles (bonds, CDs and money market funds) indicate these conservative investments

often fail to outpace inflation. With a life expectancy of 30 years or more after retirement, investors will be forced to maintain larger equity positions; they will have to learn to manage the risk.

MM: That is an ominous outlook. What about business owners?

RM: As a group, business owners may be more financially secure entering retirement than those who worked as employees, that is, they tend to have accumulated more overall wealth. The problem is that most of that wealth is typically tied up in the business. Converting business assets into retirement income can be problematic on several levels.

If it's a family business the owner expects to turn over to a second generation, how does the owner secure a sufficient retirement income without liquidating or adversely affecting the business?

My CPA partners often comment on how bright and resourceful their business owner clients are when it comes to running their enterprises. It's natural to assume these smart people are equally adept at managing their money, but that's frequently not the case. Whether it is a different skill set or they are simply too busy making money to manage it, business owners often have little idea of how much they are worth, how and where their personal assets are invested, or what they will have available in retirement.

I recall one individual whose business was worth perhaps \$20 million. He owned another \$10 million worth of real estate and had an additional \$5 million in investments, half of which was in cash equivalents! The reason, he explained, was that years ago, the actions of a dishonest associate almost caused him to lose his entire business. He was gun shy, as was his wife, who managed their personal finances. She had become a survivalist, hoarding cash in fear of another similar catastrophe.

It is not at all unusual to meet a business owner whose investments are strewn among a half dozen or more accounts at different brokerage firms, none of which communicates with the other. Lacking any cohesiveness, otherwise successful business owners are literally at the mercy of the economic winds.

MM: What can they do?

RM: Business owners need a financial quarterback, someone they trust who has a treetop perspective on their overall financial picture; someone who knows where their money is invested, how their portfolio is performing, whether their asset allocation is appropriate given their circumstances, risk tolerance, time to retirement and plans after retirement. They also need a plan to ensure they can convert business assets into retirement income when necessary. It's a matter of getting a clearer picture by bringing all the disparate financial pieces of their business and personal life together. When we do that for clients, it really opens their eyes, and their gratitude is very satisfying for me on a personal level.

MM: What's the first step for a business owner or individual who wants to discuss any of these issues with you?

RM: We offer a no-obligation meeting with business owners to assess their financial situation and review the **Succession Journey** process together.

Michael Mitchell is an independent financial writer based in San Diego.