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Small business owners need to focus on planning

Inadequate personal financial planning will have negative impact

According to the quarterly American Express Small Business Monitor, Canadian small business owners are increasingly confident about the future, with 38% of those polled willing to take above average or significant business risk in the next six months. A whopping 90% are confident their businesses will grow over the same period.

While extremely confident in the outlook for their business' balance sheets, small business owners appear less enthused about taking care of their personal finances. According to Statistics Canada, fewer self-employed Canadians than paid employees report that they are financially preparing for retirement (74% vs 85%), even though the self-employed were more likely to be knowledgeable about finances.

It's likely that some of this variance can be attributed to the fact that entrepreneurs are generally occupied full time with managing their businesses. For such busy people, additional financial decision-making has about as much allure as an appendectomy. However, inadequate personal financial planning will have a negative impact on the business owner's retirement and estate plans.

Financial planning for entrepreneurs tends to be quite complex, involving such factors as multifaceted estate issues, tax considerations, and succession planning. Due care in determining a personal financial strategy involves understanding

the business as it is currently and as it is forecast to be at retirement.

Then, investment portfolios can be constructed in synergy with the business. For instance, entrepreneurs with new start-ups or highly cyclical businesses may establish more conservative investment portfolios to offset some of the risk in their companies. There may be a time when one needs to help the other.

Similarly, business owners should be conscious of over concentration. With many of their eggs already in the company basket, they need to be sure they aren't duplicating exposure in their portfolios. A property management company owner with extensive real estate holdings might rationalize "it's what I know" and want to fill an investment portfolio with REITs, but that would create redundancy and add significant risk.

A comprehensive plan includes wealth management solutions that help determine investment planning, estate planning, and risk management. Its development is not a single event. It is followed by a continuous monitoring and management process to ensure the plan adheres to goals. Some small business owners may delay retirement planning due to concerns about the impact on their time.

Time should not be a cause for worry. Once all the necessary information has been gathered, the bulk

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of the work is done by the advisor who builds the plan and makes recommendations. The advisor can liaise directly with the business owner's team of professionals, such as lawyers and accountants, further reducing any drain on time. Future monitoring involves planned meetings with the advisor, and can take as little or as much time as the business owner needs.

Thinking about, preparing and implementing a thorough financial plan is time well spent and it is

better done sooner than later. Successful entrepreneurs understand the need in business for strategic planning, monitoring those plans, and implementing tactics to support them. They are wise to apply the same logic to their personal financial planning.

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