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Balancing business for retirement / Your business isn't a retirement plan

This week we examine one of the trickiest decisions all young entrepreneurs face. How to balance investing in your retirement while driving the growth of your business.

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All investment professionals agree that the best way to prepare for retirement is to cultivate a diversified investment portfolio. But this doesn't always feel right if you're a young entrepreneur who's a risk taker by nature. It's very tempting to concentrate on your rapidly growing business as your entire investment strategy and to think of your business as your retirement solution.

What if?

But what happens if you can't sell your business? Research indicates that only 20% to 25% of privately owned businesses ever get sold – often because the value of the business is directly linked to the skills and personality of the owner. Worse still is the unpalatable possibility of your business going under before you reach retirement age...

When you meet with your financial advisor to determine your retirement plan, it's standard practice to consider all your assets, including your business. If you accept that there is the possibility of not being able to sell, it's easier to commit to increasing the proportion of nonbusiness assets in your retirement portfolio. We know what a tough decision this can be, as it may well slow the growth of your business, but it certainly does make long-term investment sense.

Achieving equilibrium

Understanding the philosophy that underpins a balanced retirement portfolio may assist your decision making. [Regulation 28](#) does serve as a handy guide. (link to the previous article). It specifies that no more than 75% of a retirement portfolio may be allocated towards local and offshore equity. You could think of your private business as this equity portion and to commit to building up an external retirement portfolio of lower risk assets to make up the balance.



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Of course, this approach won't work for everyone. Some investors will continue to invest in their private company in the hope of attaining higher returns. Others will do the opposite, adding more conservative assets in the hope of preserving what they've already acquired.

What's your business really worth?

How do you value your rapidly growing business? This is a contentious and highly-debatable topic, but the bottom line is that your business is only worth what someone else is willing to pay for it. Once you've accepted the notion that – despite all your successes and dreams – you may not be able to sell, it'll be easier to accept that you should only take into account the value of the tangible business assets (premises, stock, equipment) when determining the equity allocation. This lowers the risk in your overall portfolio and could allow you to take on more risk in the allocation of nonbusiness assets.

If you own a service-based business where you charge by the hour and boast minimal tangible assets, you may even have to disregard your business when formulating your retirement plan completely.

Entrepreneurial Tips

No two entrepreneurs are alike, no two sets of circumstances are identical, and there's definitely no such thing as the ideal solution...But there are a few retirement planning tips which usually apply:

- Use a financial adviser –you probably don't have time to be an investment expert *and* an entrepreneurial guru
- Accept that you may never be able to sell your business
- Honour your non-business retirement nest egg. No dipping!
- Build a cash reserve for additional entrepreneurial ventures. Once an entrepreneur, always an entrepreneur...
- Consider investing in tangible business assets which could be sold off separately
- Think about investing relatively conservatively outside your business
- Beware of personal debt, especially if your business is highly geared



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Over time, as you review your business and non-business assets, you'll reach a point where you have a unified and diversified retirement strategy that befits your achievements as an entrepreneur.

Contact your investment advisor if you'd like to discuss your entrepreneurial retirement plan. To find out more about Prudential funds contact our Client Services Team on 0860 105 775 or at query@prudential.co.za