



Business Transfer Newsletter

Good Markets Conceal Risk, Bad Markets Expose Risk

Many business owners, while welcoming the current prosperous economy, are also aware that it may not last much longer. The Great Recession of not so long ago is still fresh in our minds. As the saying goes, ‘we must learn the lessons of the past’.

Just like the tides that come and go, so do market cycles. When the tide is in and water levels are high, what lies at the bottom of the waters is concealed. Similarly, a good market conceals the risks in a business. When the tide goes out, however, the troubles at the bottom can be seen and then need to be addressed.

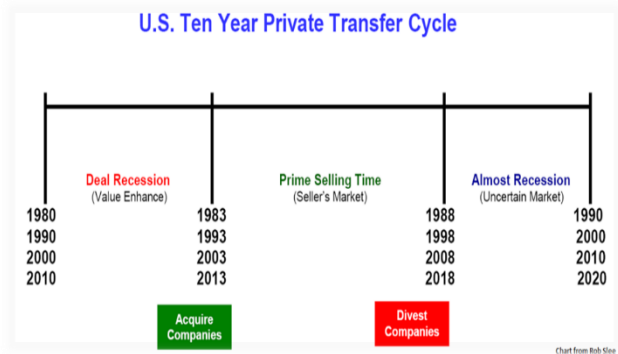
This newsletter, then, is meant to be a reminder to owners who are feeling good about their businesses today: In good markets, risk is concealed and sometimes ignored, perhaps to our peril. Let’s not allow the lessons of the past recession to be forgotten so quickly.

Let’s Begin with Market Timing – Ten-Year Transfer Cycle

Market conditions can dictate how much of the risk in our businesses we can see at any given time. Markets run in cycles and timing reveals and conceals risks.

Businesses perform well because of favorable economies. During good times, valuations are high, employees are engaged, and, often times, buyers and investors have a high degree of interest and activity.

As the chart below indicates, the last three (3) decades have followed a common market cycle and this decade is following suit.



Today we are in a good market and, perhaps, we are nearing the end of this current cycle. Some prognosticate that this current market may last beyond 2018, perhaps reflecting more of the trend seen at the end of the 90’s. Regardless of the exact timing, most owners agree on two (2) important points – First, that another

recession will appear and, second, that the drop in the economy happens a lot faster than the slow build-up of growth.

What Does a Good Market Concealing Risk Look Like?

When markets are growing, businesses are strong and we see less of the risks that exist in our businesses.

For example, regarding your employees in a good market, B and C players on your teams are not critically reviewed because work is so busy you need bodies just to complete the jobs. Since good markets make it difficult to attract top talent, this also helps to conceal the risk that poor performers place on your business.

Banks are another example. Today, banks are lending and looking to deploy their capital at historically low rates. This leads to a sense of comfort with leverage and, perhaps, some forgetfulness about challenges with repaying debt during a recession.

Owner-Dependence Adds to the Risk / Fragility of Any Privately-Held Business

An ongoing, national survey of business owners takes a measurement of the dependence that a company has on the owner. The average overall score is 54%. This means that business owners largely add to the risks that are concealed in a good market, by having their businesses be highly dependent upon them. These owners:

- Are very involved in the day-to-day running of the business
- Do a majority of the hiring, managing and firing of employees
- Plan for the company's strategic direction by themselves, with little to no input from others
- Do not share their company results with anyone except their accountant (and what they choose to tell the IRS)
- They are involved in writing checks, running payroll, paying bills, handling accounting
- Are personally liable for the debts of the business
- Oversee the business performance with little delegation or empowerment to managers

If you are doing many of these activities in your business, the good market today is further concealing the risks that exist in making your business more transferable to someone else because it is highly dependent upon your individual efforts. Again, good markets can conceal this, while poor markets may reveal it.

What to do Next?

Are you a business owners who is sitting on risk that you just don't acknowledge? Is the current economy aiding to this easy-to-fall-into trap for you and your business? And, if this is the case, what might be your motivation to take action?

This newsletter recommends that you remain objective, try to see the bigger picture, critically examine how much of your wealth is tied to your illiquid business, and give some consideration to

the idea that there is more risk in your business than you can currently see. When you think and act in this manner, there is a higher probability that you will not allow the current strong market to conceal the risk that is in your business, rather you will be pro-active in addressing it, and perhaps working to protect your overall wealth.

Private Wealth Advisor

[Cathey Paine is a registered representative of Lincoln Financial Advisors Corp.](#)

Securities offered through Lincoln Financial Advisors Corp., a broker/dealer (member SIPC). Investment advisory services offered through Sagemark Consulting, a division of Lincoln Financial Advisors Corp., a registered investment advisor. Insurance offered through Lincoln Marketing and Insurance Agency, LLC and Lincoln Associates Insurance Agency, Inc. and other fine companies.

Please do not send any trading or transaction instructions through this email. They will not be honored or executed. Should you need immediate assistance, please call the Lincoln Financial Advisors trade desk at 1-800-237-3815.

If you do not wish to receive future e-mails from me, please call me at 818-540-6945, fax me at 818-540-6991, or e-mail me at Cathey.Paine@lfg.com. We will comply with your request within 30 days.

Lincoln Financial Advisors Corp. and its representatives do not provide legal or tax advice. You may want to consult a legal or tax advisor regarding any legal or tax information as it relates to your personal circumstances.

CRN-2138490-060118