

# Managing your wealth

How to approach wealth management strategies in tough economic times **Interviewed by Kristen Hampshire**

**I**n a tough economy, wealth management planning often gets pushed to the back burner as executives devote their time and energy to business survival.

But the worst thing you can do is wait for a market upswing to start thinking about managing your wealth.

“Despite economic uncertainty, now is the time to make sure you take a careful look at your wealth management strategies,” says Stewart Beach, executive vice president of wealth management for Old Second National Bank. “Don’t wait to plan until things get better.”

Instead, evaluate your company’s benefit plans, formulate a succession plan and think holistically in terms of financial assets.

“It’s important for individuals to look at not just their personal financial assets but at their entire balance sheet,” Beach says.

*Smart Business* spoke with Beach about how to develop strategies to execute a sound wealth management plan in this economy.

## What wealth management challenges are businesses currently facing?

This is one of the most difficult times we’ve faced in the last 50 years in terms of market uncertainty. For the last year, business owners have been taking a good, hard look at their operations and figuring out ways to tighten their belts.

This is not necessarily a bad thing — in fact, many companies are benefiting from this exercise. During fat times, many companies carry around extra weight. But in terms of wealth management, there are side effects that companies can face as a result.

First, many companies that offer defined benefit plans are not meeting their return requirements. The plans have become underfunded and the company has to invest its own cash to support the plan at a time when cash flow has been reduced.

This is a financial risk for companies already in a crunch. As a result, many companies have switched from defined benefit plans to 401(k) or similar plans, and many organizations have stopped offering a match for employee contributions. However, while this might benefit the business, it can result in a real hit to employee morale.



**Stewart Beach**

Executive vice president of wealth management  
Old Second National Bank

Second, family-owned businesses are watching their private equity values drop. Those that were executing a succession plan and hoping to sell the business now may need to bench those plans until the markets return to a better place.

Finally, some companies are seeing wider margins because of leaner operations. A business that doubled its sales and is operating with 25 percent less staff than it was previously is in a highly favorable wealth management position now with positive cash flow. But over the long term, that business could risk losing employees when the market turns. Hard workers will feel taken advantage of and look for jobs elsewhere.

The lesson is that wealth management involves much more than money; it also includes managing human capital to ensure the best returns.

## What are some mistakes business owners make as they manage their wealth?

Business owners have an entrepreneurial spirit, so they generally have a larger risk appetite. As they build their financial portfolios, they may overlook the fact that they already have a huge equity position in a company that they own.

If their investments go down and their

company’s cash flow dips at the same time, they experience a major drop in their overall financial assets.

To prevent this from occurring, owners need to build a portfolio that complements their business. For example, if high gas prices negatively affect a company’s cash flow, that business could invest assets in oil companies. That way, when cash flow is down, the company’s investments are up.

Another mistake business owners tend to make is failing to plan for succession. We see large companies where owners put off this important process, and they end up losing a lot of money, whether the economy is good or bad. It’s never too early to begin thinking about what will happen to the business should the owner pass away or decide to exit.

## What strategies can businesses adopt to secure their wealth in a down economy?

First, they need to ensure that their investment portfolio provides protection and works as a hedge for the business. For instance, if a business has a lot of international exposure, then the owner should consider investments in domestic markets. If the dollar weakens, the business will thrive and cash flow will increase, and if international markets are down, domestic investments will balance the loss.

Again, the key is to look at wealth as a whole.

Second, businesses shouldn’t shy away from long-term planning now, even if the temptation is to focus only on the here-and-now to keep the business running successfully. They should consider a succession plan and talk to a professional about the best way to transition from the growing wealth stage to the preserving and transferring wealth stages.

## Whom should business owners partner with as they make these decisions?

A team should include a trusted attorney, accountant, commercial banker and wealth management adviser who can help direct the financial strategies discussed here. These advisers will help a business get that holistic approach it needs to grow and preserve wealth. <<

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