



Forbes

COMPANIES

Five strategic wealth management tips for entrepreneurs



BY JIA RIZVI

MARCH 3, 2024

Reading time 6 minutes

Many people start a business with dreams of becoming rich, which isn't necessarily unrealistic. About **88% of millionaires are self-made** , meaning they didn't inherit their wealth but instead earned it through entrepreneurship or other means, according to research from **Fidelity Investments** . But getting rich doesn't happen overnight, especially for entrepreneurs known for their risk-taking ability and innovative mindset.

Wealth management for entrepreneurs involves a comprehensive approach to managing personal and business finances, focusing on efficiently growing, protecting, and utilizing wealth generated through business ventures. It differs from traditional wealth management because of the unique challenges and opportunities faced by entrepreneurs.

“ Research suggests that gaps in financial education impact wealth, and people who actively engage in comprehensive financial planning tend to achieve better long-term financial outcomes compared to those who don't ,” says **Charmaine Green-Forde** , Founder and CEO of **Chapter Too** , a leadership and organizational development firm.

Let's look at five strategies that entrepreneurs can use to build and manage their wealth so they can achieve their goals.

1. Diversify beyond the business

“Entrepreneurs often have most or all of their wealth tied up in their businesses. While reinvesting in your business can be a powerful growth strategy, it's equally important to avoid having all of your financial eggs in one basket ,” explains **Todd M. Villarrubia** , founding partner of **Wealth Planning Law Group** . You never know when something out of your control, like a global pandemic, can completely upend your business plans and jeopardize everything you've worked so hard for.

“To mitigate risk, it is important to invest in a diverse portfolio that includes stocks, bonds, real estate and possibly other businesses so that they have approximately equal weighting. **This not only protects your**

overall financial health from the volatility of your business sector, but also ensures consistent growth through other channels ,” says Villarrubia.

2. Cash flow management

“ If you want to build and manage wealth effectively, the first and most important step is to have a full understanding of your financial situation . This involves assessing your assets, liabilities, income and expenses, including any possible inheritances,” says Green-Forde.

“Entrepreneurs often face the challenge of managing irregular and unpredictable revenue streams. Understanding how to manage cash flow is vital to ensuring an entrepreneur’s personal and business finances remain stable and can support growth ,” says Villarrubia.

“Implement sound cash flow management strategies. Start by maintaining a clear separation between personal and business finances, establishing an emergency fund to cover fluctuations in income and using forecasting tools to plan for future cash needs. Regularly monitor and adjust budgets based on business performance and personal financial goals.”

Looking ahead and planning ahead is key. “Apply for a line of credit or loan when you don’t need it. Chances are, your numbers will look a lot better when you don’t need it. This means you’ll likely get a better deal, such as more funds or lower interest. Having access to these can provide peace of mind. It also helps build business credit. Debt can be seen as a negative, but in business it can be neutral and used as a tool ,” adds Maiko Sakai, founder of [Airtight Concepts Inc.](#) , a business strategy firm for small businesses.

3. Retirement Planning

According to a [SCORE](#) report , more than one-third of entrepreneurs lack retirement savings. Without proper planning, entrepreneurs may be forced to work long past retirement age instead of living out their retirement dreams.

“In the midst of building and running a business, retirement planning often takes a backseat for entrepreneurs. Unlike traditional employees, however, business owners don’t have the benefit of employer-sponsored retirement plans. It’s important to treat yourself like an employee, even though you’re running a business. Work with a professional to create a retirement plan that secures your future ,” Villarrubia says.

Entrepreneurs and business owners often seek guidance from CPAs, attorneys, and financial advisors, who may not always be fully versed in the advanced, nuanced planning strategies that can significantly impact long-term financial success. This includes taking advantage of options like cash balance plans, **Prosperity Plus** programs , and employing life insurance in ways that provide tax benefits and enhance retirement savings. Especially for those in their 40s and 60s, exploring these less conventional avenues could lead to significant tax deductions.

4. Succession planning

Every entrepreneur will eventually face the question of what will happen to their business when they retire, are unable to manage it, or pass away. **“Now is the time to plan for the future of your business. Take the time to develop a clear succession plan that outlines what will happen when you need to step away from the business permanently. This could involve grooming a successor, establishing a buy-sell agreement, or planning for the sale of the business. Make sure this plan is legally sound and aligned with your personal wealth management goals ,”** says Villarrubia.

Estate planning is part of succession planning. **“For entrepreneurs, estate planning is not just about deciding who will take over the business. It encompasses a broader strategy to ensure that all business and personal assets are distributed according to the entrepreneur’s wishes upon his or her death.** This process involves legal documentation, such as wills and trusts, that dictate the distribution of assets and can help minimize taxes and legal hurdles for heirs,” he adds.

5. Asset protection

“Entrepreneurs are often more exposed to legal risks than regular employees. **Lawsuits, business debts, and other liabilities can threaten personal assets. Use tools to protect personal assets from business liabilities.** It is essential to separate personal and business finances and have adequate insurance,” says Villarrubia.

Wealth management for entrepreneurs is not just about growing wealth, but also about protecting it, ensuring its longevity, and aligning it with your personal financial goals. These strategies require a balance of financial acumen, foresight, and a willingness to seek professional advice when necessary. Effective wealth management is an ongoing process that requires entrepreneurs to continually adapt to changing business landscapes and personal life stages.