

Byline Bank

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Distinct Wealth Management Considerations for Small Business Owners

Small business owners invest countless hours, energy, and dedication into building their enterprises. However, when it comes to managing their wealth, they face unique challenges that differ from those of the typical high-net-worth individual. When blending personal and business finances together, along with the additional complications of succession planning, small business owners need more than just a diversified investment strategy and estate planning to manage their wealth— they need comprehensive strategic planning for the future.

When advising this market on growing and protecting their wealth, wealth managers must understand the financial factors unique to small business owners.

Diversification and Liquidity

While the average high-net-worth individual has their assets spread across various investments; the financial success of small business owners is often heavily dependent on the performance of their business. For wealth managers working with entrepreneur clients, underlining the importance of diversifying assets is essential, lest something happen to the business that puts the owner's financial future at stake.

Small business owners who have historically kept the bulk of their wealth in their businesses present a unique challenge in terms of diversification. For these clients, one option is to gradually diversify their financial assets. Have the client set aside a portion of their profits to invest in stocks, bonds, or real estate, and then gradually build an investment portfolio that aligns with the clients' values and risk tolerance.

Diversification is especially important when it comes to liquidity events like the sale of the business. When a business owner sells their company, they often find themselves with a significant amount of cash on hand, and this newfound liquidity must be managed wisely.

Succession and Estate Planning

Many small business owners who have dedicated their life to their businesses have never considered what should happen when they are no longer at the helm. For wealth managers, explaining the importance of succession planning is key when working with small business owners. Done correctly, good succession planning begins years before an anticipated exit and involves not only selecting and grooming a successor, but also structuring the business to facilitate a seamless transition. For those with family members involved in the business, this could mean gradually transferring ownership shares or implementing estate planning strategies that minimize tax liabilities.

Estate planning also plays a vital role. Business owners must consider how their illiquid assets will be managed and distributed in the event of their death. Questions about who will run the business, how it will be valued, and how the value will be extracted need clear answers. These are complex issues that require detailed planning and legal guidance.

Thinking Beyond Your Business

Wealth management for small business owners involves navigating a complex landscape of concentrated assets, succession planning, and post-exit purpose. For wealth managers, this means helping them move from a focus on growing their business to a broader perspective that secures their wealth and legacy for the long term.

Managing wealth for small business owners involves helping them think beyond their business. By diversifying investments, planning for succession, and finding a new purpose post-exit, wealth managers for small business owners can help to secure a fulfilling financial future for their clients.

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