BAIRD

Asset Allocation and the Business Owner: Is Your Wealth Management Strategy Ignoring Your Biggest Asset?

By Christopher G. Didier and Brian L. Beaulieu

Synopsis

Although the outcome is highly individualized, the goal of wealth management is to design a well balanced portfolio. Recent research has highlighted the need to go beyond the basics by considering alternative investments and tax implications in any asset allocation strategy. But, for a business owner, the business should be the first consideration of effective wealth management. While the business may often be ignored, it is crucial for any asset allocation strategy to integrate the business as one of the owner's biggest assets. The objective of this paper is to provide the business owner, and their financial advisor, with guidance and a methodology to do so. This paper is written to the business owner. However, the concepts presented could be easily applied by anyone whose wealth is derived from either a private or a public company.

Critical Observations

- Many business owners do not consider their business assets in the context of their overall investment portfolio.
- Many business owners overestimate their personal level of diversification.
- Many business owners underestimate their risk exposures.
- To avoid overexposure to risk, business assets should be considered in constructing the asset allocation of any investment portfolio.
- There is a method that can be used to easily factor in most businesses to the asset allocation decision when constructing an investment portfolio.

PERSPECTIVE

A Business Owner Protects His Wealth Against the Ups and Downs of the Family Business

In the summer of 2002, Paul, a business owner, reflected on his success running the home-building company founded by his father in the 1970s. Under Paul's leadership and ownership, the company was on its way to becoming one of the largest privately owned home builders in the country. Paul estimated his net worth at $50 million, with more than 90 percent coming from his share of the company's value. Paul was also receiving substantial yearly distributions.

In the past, he had always reinvested the bulk of the distributions back into the company, but remembering how hard the last real estate bust had been on his father, Paul asked his Advisor for thoughts on diversifying his investments. Since Paul was committed to continuing to grow his business and had no desire to sell, his Advisor suggested that he begin to build a portfolio outside of the company, funded with a portion of his yearly distribution.

In constructing an investment portfolio, however, it was crucial for Paul to not merely put together a balanced portfolio across diversified assets classes, but also to design a portfolio that would behave differently from that of his home-building company.

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Paul's Advisor reasoned that it would be impossible to protect his wealth from the ups and downs of the business if the business were not considered.

As the home-building industry continued to grow and his business prospered, Paul's investment portfolio remained steady with good returns, but with much slower growth than that of his business. From time to time, Paul needed to be reminded by his Advisor just why his portfolio was structured the way it was and why he was not getting the same returns that his business was producing.

Fast-forward six years to 2008. The housing bubble had burst, and many home builders were filing for bankruptcy. Although Paul's business may not be worth what is was at the peak of the housing boom and perhaps not what it was worth in 2002, his company will remain successful in the long run because Paul has made good business decisions.

And, since Paul's investment portfolio was designed to behave differently than the home-building industry, it's riding out the roiling economic changes with modest but predictable growth. Paul is grateful that, with the assistance of his Advisor, he has developed a portfolio that can help protect his family's long-term wealth, regardless of the recent downturns in his business.

Unfortunately, not every family business owner has considered the consequences of betting all their wealth on investments that are likely to follow the same trends affecting their business. Simply being balanced and diversified across asset classes and investments may not be enough to ensure wealth preservation; it has to be effective. Effective wealth management and asset allocation starts with understanding the expected market cycle of your biggest asset, your business. Then you can use that knowledge to design a balanced and diversified investment portfolio that helps protect your family's wealth against overexposure to those same cycles.

The Problem: Ignoring Business Assets in Developing an Investment Portfolio

The goal of effective wealth management is to design a well-balanced portfolio. Although the process and outcome are highly individual, all wealth-management planning begins with such basics as your age or life stage, time horizon, risk tolerance, cash needs, and a review of your financial assets with the end result being the development of an appropriate asset allocation strategy. Recent research has highlighted the need to go beyond traditional financial assets, such as stocks and bonds, when assessing an asset allocation strategy, recognizing the need to also consider alternative asset classes like real estate, private equity, hedge funds, commodities and even an individual's lifetime earnings potential. While still in the embryonic stages, the implication of taxes in allocation decisions is being studied as well.[1]

It is clear there are many considerations when developing an allocation for any individual, but for those whose wealth is primarily derived from a business they own, the business should be the priority.

We find all too often that the business is ignored in wealth management planning, diminishing the benefits of diversification and creating unnecessary risk to the business owner's wealth preservation strategy. If you are a business owner, it is crucial for your asset allocation strategy to integrate your business as one of your biggest assets.

Occasionally, it makes sense not to diversify. Entrepreneurs, for example, may be in a wealth-creation mode and so focused on growing their business that they typically concentrate all their assets into their company. They nurture the business carefully as it grows and hope they can generate maximum returns. They usually don't invest outside their company.

Established business owners, however, typically begin moving into a wealth-preservation mode at some point. They have already built their companies into sustainable entities, and they may be interested in harvesting some of the wealth they have created. Some look to create an investment portfolio outside of their company because they are concerned about the risk of the business while others are simply looking for a place to invest their excess cash.

[1] See:

Indjic, Drago – "Strategic Asset Allocation with Portfolios of Hedge Funds" AIMA Journal, December 2002.

Idzorek, Thomas M. – "It's now possible to prove that private equity has a place in a diversified collection of assets" Morningstar Advisor, Winter 2008.

Van Eck Associates et al "Asset Allocation: Consider the Commodities You Already Own" Seeking Alpha, November 2007.

Ibbotson, Roger G.; Chen, Peng; Milevsky, M.A. and Zhu, Xingnong – "Human Capital, Asset Allocation, and Life Insurance," May 2005. Yale ICF Working Paper No. 05-11.

Reichenstein, William – "Calculating After-Tax Asset Allocation Is Key to Determining Risk, Returns, and Asset Location," Journal of Financial Planning, July 2007.

Horan, Stephen M. – "Applying After-Tax Asset Allocation," The Journal of Wealth Management, Fall 2007.

Wilcox, Jarrod; Horvitz, Jeffrey E and diBartolomeo; Dan – Investment Management for Taxable Private Investors The Research Foundation of CFA Institute 2006.

> Generally, advisors and other business consultants understand the risks associated with a concentrated asset; in fact, they are often the ones who recommend diversification to the business owner to begin with.

Overlooking the Elephant in the Room

For many established business owners, their business often represents their single greatest asset. And since wealth preservation requires balance and diversification, that business *must* be considered in designing their investment portfolio. It's the elephant in the room – ignored surprisingly often, despite its size.

John Ward is a Clinical Professor and Co-Director of Northwestern University's Kellogg School of Management Center for Family Enterprises. He has consulted with a number of owners of family businesses and based on his experience says that "most business owners are concerned about the risks within their business and work to reduce their risk exposure through diversification." However, Professor Ward also says "it is rare that an owner considers the performance behavior of their investment portfolio relative to their business."

Generally, advisors and other business consultants understand the risks associated with a concentrated asset; in fact, they are often the ones who recommend diversification to the business owner to begin with. Why, then, are businesses "not considered or overlooked in business owners' investment portfolios," as Professor Ward says?

Reasons a Business May Be Bypassed in Asset Allocation

1. **Hard to Compare –** Most often, financial advisors don't attempt to model the business component into the asset allocation and determine how its performance relates with other assets in the portfolio because it can be difficult to find reasonable data for the business that can be easily compared. Many privately held companies are highly specialized or are in a niche market, or both. In other cases, businesses might be serving an emerging industry. Unlike public companies with stringent reporting requirements, financial data about private, closely held companies may not be easily accessible. Even when data is readily available it can be extremely time consuming to model. When asked in a recent survey why portfolio construction was becoming more difficult, the top three answers given by financial advisors were: greater product selection, more time consuming and complicated advice topics.[2] The response seems to reinforce the idea that some advisors may not have the time, skill-set or resources to adequately model the business component into asset allocation.
2. **Illiquidity –** Some owners don't regard the business as part of their investment portfolio because typically it's an illiquid asset. Since such businesses are usually not on the sales block, they are not considered by accountants and financial advisors as "marked to market," that is, they have not been valued for the potential amount they would bring on the open market. To owners, and those who advise them, the portfolio becomes something separate from the business. They regard the portfolio as the place where they invest distributions they take from their business, not as *something that should be complementary to the business*. The implications can be serious given

[2] Investment Management Consultants Association and Cerulli Associates, Spring 2008

The Fear of Losing Control

By nature, business owners are reluctant to surrender their wealth to someone else, says Sara Hamilton, CEO and founder of the Family Office Exchange (FOX). FOX provides research, education and advice to more than 500 members in 22 countries, who represent family business owners with assets ranging from $30 million to several billion dollars.

It comes down to a matter of control, she says.

"Someone who launches a business is almost always a driven, persistent, insistent person who likes being in control," she says. "That's why they don't go work for someone else. They think: 'I know how to build furniture. I know how to take care of my clients. I'm in control of managing business development.'"

For the same reason, she says, business owners don't quite trust financial markets; the outcome is out of their control. "Turning control of their wealth over to someone else is a foreign concept. Instead, they may reinvest everything they've got back into the business so there isn't a lot of liquidity. It's the known versus the unknown," she observes.

The ability to deal with the known and the imperative to invest only in things they can control may explain why so many business-owning families often invest their non-business assets in real estate, Hamilton says, citing research FOX has done on typical asset allocations.

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the current focus on the inclusion of alternative asset classes such as private equity, hedge funds and real estate in many asset allocation strategies. These non-traditional asset classes often have their own liquidity risks which, if not considered along with illiquidity of a business, may unintentionally compound the liquidity problem as a whole.

3. **Familiarity and Control –** Business owners make the major decisions in their businesses. They are accustomed to being in control, and they are confident in their judgments. While confidence is good, over-confidence can lead an owner to underestimate the risk in their business and, correspondingly, his or her need to better balance their portfolio. This "control" mindset has further implications on their portfolio strategy as well. Since non-business financial investments are beyond their control, they can be out of their comfort zone and may feel uncharacteristically hesitant. Faced with this, business owners will typically either stick to investments they are familiar with, or they may defer entirely to their financial advisor for portfolio strategy and construction. Finally, business owners may not feel the need to discuss their business with the advisor since the business is already *under control*. This ultimately can result in the advisor creating a portfolio of investments without any consideration of the business. The advisor may even hear the business owner say "You take care of the portfolio and I will take care of my business." (**See "The Fear of Losing Control," in sidebar at left**).
4. **Calling in a Cadre –** Some business owners believe they are achieving portfolio diversification by hiring several different money managers to invest their non-business assets. But often, these money managers are thinking alike and buying the same or similar assets, which means the owner is now overexposed to the same investment risks. Unfortunately, this approach still ignores the elephant in the room. If the performance of those investments has a high correlation with the performance of their business, as they often do, the risk exposure to the business owner may be much more than was anticipated.

Including Your Business in Your Asset Allocation Strategy: 3 Important Steps

Despite these obstacles, we have found it is quite possible to apply certain techniques to model most any business into an asset allocation strategy. The three-step process described below is not an exact science, but it will allow you to better understand how your investment portfolio relates to your business, which will put you in a better position to manage your risk exposure.

1. Create a Business Market Index

Similar to the way indices are built for businesses to use for benchmarking and trend purposes, your company's data can be analyzed and compared against industry data and macroeconomic indicators. Every company, large or small, public or private, experiences up and down cycles. Your company's business cycles

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"They feel most comfortable putting liquid assets into real estate versus marketable securities. Real estate is tangible, concrete, it's under their control, and they're used to buying real estate in their business. They're not as trusting of the financial markets. They like owning physical assets."

Another foreign concept to business owners and business-owning families is the idea of viewing the company not only as an asset but also one that is subject to risk from market swings and other factors.

"A business owner never feels his own business is a risky venture," Hamilton continues. "Hardly ever do they see risk in what they own and manage because they're totally in control." For the same reason, they may resist taking advice from someone else, she says.

"Yet almost every financial advisor I know, when they talk to a business- owning family, is definitely talking to them in the context of the business and the risks involved in that core business. But the idea of comparing their company against other assets whose economic cycles correlate with that of the business is just not something many business owners have thought about."

But perhaps it's time to consider it, she says.

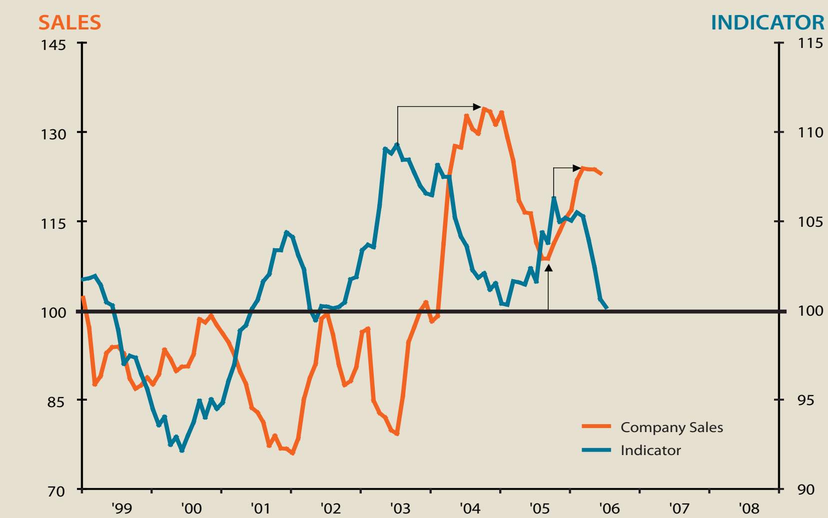
and what influences them can be estimated along with how the sales rates change over time. By examining this data you can determine:

- where your company is in the business cycle
- which indicators actually lead your business, and
- where you can expect your company to be in 12 to 24 months.

your business would be considered non-cyclical and thus will have a lower correlation to the economy. But that's not necessarily true of all service industries. For example, the financial services industry is obviously tied closely to the equities market and likewise the economy.

First, we look at the markets in which the business operates and competes, and then we work on creating a

Example Business Market Analysis



To determine when future sales highs and lows may occur, this analysis compares your company revenues with a selection of economic indicators. It's not enough to simply know sales trends. It is imperative that the future sales highs and lows, which affect business valuation, are considered within the context of other assets.

The type of business drives the process. A manufacturing business will typically have a higher correlation to the economy, much the same way the equities market tends to perform. By contrast, if you operate a law firm or one that's tied to the legal industry,

weighted Business Market Index (BMI) to reflect the company's degree of involvement in those markets.

Let's say a company's products or services are sold to these markets: 50 percent of sales go to industrial markets, 19 percent to law firms, 17 percent to accounting firms and 14 percent to "other." We look for external data to reflect the business-cycle behavior of each identified market. If sufficient company data are available, we can actually test the relationships before constructing the BMI. The "other" category would probably be allocated to a general category, such as

GDP, if it's deemed to have some cyclicality. If "other" has no discernible business-cycle relationships, it's designated as a non-cyclical business measure.

This example will apply in many cases, but sometimes a broad sales-market designation needs to be better defined. In the above example "Industrials" can comprise a wide variety of products, each with different business-cycle behavior. For instance, the business cycle of the commercial aircraft subset may be quite different from that of the power generation subset, or that of a metal-working business, or one that produces a product for the housing industry.

Before we can construct a business-cycle benchmark for the business, our job is to find these differences. Then, when we've determined what the end-market components should be, we research relevant data streams. We standardize the data so that the market activity is expressed in a common unit, most often by indexing each of the series to a common base. By applying the weighting scheme to each of the market component indexes we established, we can create a weighted BMI of that company.

By examining historical returns and volatility of the BMI it is possible to model future returns as well as the ups and downs, or volatility, of the business. It won't be a perfect benchmark, but it's a close approximation – and a far better option than not considering that business at all.

Defining Correlation –
In designing an asset allocation strategy, financial advisors may chart how a group of assets correlate, or perform against each other over time. If a portfolio is well-balanced, each individual asset class within the portfolio can be expected to vary in performance. Two assets A and B can have a correlation that ranges from -1 to 1. For example, if Asset A is up and Asset B is also up, they are said to be positively correlated. If A is up, but B is down, they are negatively correlated. If they increase together in equal amounts, then they have a correlation of +1. If they move in equal amounts in the opposite direction, they have a correlation of -1.

2. Build a Correlation Matrix

Once the Business Market Index that is reflective of a company's business cycle is determined, a correlation matrix that compares the company's performance against the performance of other financial assets is created. This lets the owner see which assets are more highly correlated to the business. For example, a correlation matrix for a "Sample Company," a national distribution company, is shown in Table 1. From the table you can see that, on a relative basis, International Equity has the highest correlation with the Sample Company at 0.38 while Intermediate Taxable Bonds has the lowest correlation at -0.40.

TABLE 1

Correlation Matrix	Large Cap Equity	Small Cap Equity	International Equity	Emerging Markets	REITs	High Yield Bonds	Intermediate Taxable Bonds	Cash	Commodities	Hedge Fund of Funds	Sample Company
Large Cap Equity	**1.00**	0.88	0.69	0.61	0.59	0.53	0.18	-0.03	-0.27	0.46	0.37
Small Cap Equity	0.88	**1.00**	0.62	0.72	0.68	0.59	0.08	-0.04	-0.14	0.53	0.18
International Equity	0.69	0.62	**1.00**	0.58	0.49	0.42	0.14	-0.12	-0.18	0.38	0.38
Emerging Markets	0.61	0.72	0.58	**1.00**	0.34	0.50	-0.26	-0.12	-0.14	0.59	0.03
REITs	0.59	0.68	0.49	0.34	**1.00**	0.54	0.36	-0.11	-0.22	0.22	-0.02
High Yield Bonds	0.53	0.59	0.42	0.50	0.54	**1.00**	0.27	-0.05	-0.31	0.25	0.08
Intermediate Taxable Bonds	0.18	0.08	0.14	-0.26	0.36	0.27	**1.00**	0.19	-0.11	-0.13	-0.40
Cash	-0.03	-0.04	-0.12	-0.12	-0.11	-0.05	0.19	**1.00**	-0.01	0.10	-0.14
Commodities	-0.27	-0.14	-0.18	-0.14	-0.22	-0.31	-0.11	-0.01	**1.00**	0.12	0.12
Hedge Fund of Funds	0.46	0.53	0.38	0.59	0.22	0.25	-0.13	0.10	0.12	**1.00**	0.34
Sample Company	0.37	0.18	0.38	0.03	-0.02	0.08	-0.40	-0.14	0.12	0.34	**1.00**

International Equity has highest correlation with Sample Company

Intermediate Taxable Bonds has lowest correlation with Sample Company

It is critical to understand how your business behaves relative to your other holdings, or, how it *correlates* with other types of financial assets.

We can then use the correlation matrix to build an overall asset allocation that's better structured. To be fully balanced, the owner would want to invest more heavily in asset classes with a lower correlation to the business and start avoiding asset classes that are more highly correlated with the business. Put another way, owners and their advisors would look for assets that have as low a correlation as possible – perhaps even a negative correlation to their business. The goal is to make sure the owner isn't overexposed to swings in the business cycle.

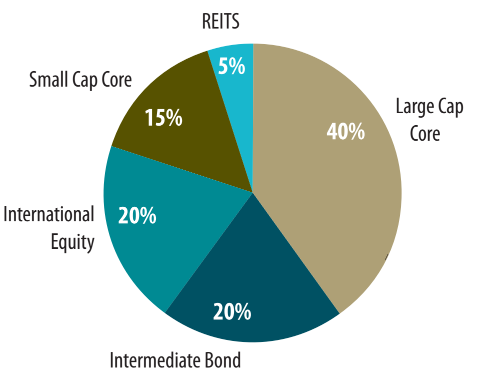
This might suggest that instead of heavily investing in real estate or a portfolio of domestic equities, other investments need to be considered. These might include traditional as well as high-yield bonds; stocks and bonds of international and emerging markets; and alternative investments such as private equity, hedge funds, and commodities like gold, oil and corn. We realize that some of these investments may be abhorrent to some business owners because they may be unfamiliar to them, or the return potential may not be what they're used to in their business. However, if real estate or equities suddenly headed down in value, inclusion of some or all of these types of investments should buffer the *total* portfolio against a meltdown.

3. Balance Your Risks

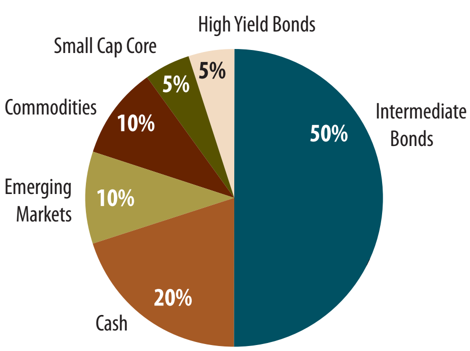
It is critical to understand how your business behaves relative to your other holdings, or, how it *correlates* with other types of financial assets. That way, you can avoid being overexposed or heavily concentrated in assets that mirror your company's business cycle. Once you understand how your company behaves relative to other asset classes you can balance your risk exposures.
Some scenarios:

- A real estate developer would want a portfolio with a low correlation to real estate. We've observed that many business owners choose to diversify by building a portfolio of assets they may be more familiar with, such as real estate or private equity. Unfortunately, a large component of most businesses is already significantly invested in real estate – in an office, warehouse or manufacturing plant. So diversifying by adding more of what you are familiar with may not be diversifying at all.
- If profits of your business get squeezed when commodities, such as energy and raw materials, are rising, it may make sense to include commodities in your portfolio. On the other hand if you owned a company in the energy business, you should actually restrict your portfolio managers from investing in commodities and other sectors, such as emerging markets, that may be linked to commodities. Should the commodities continue to rise, in either case your exposure would be balanced.
- It is important to understand what sectors are dominating returns in the equity markets. In the 1990s, technology companies comprised a substantial part of the S&P 500. If you had a tech business whose success was based on selling into that industry, you may not have gotten the balance you thought by simply investing in a broad market equity fund that benchmarked itself against the S&P 500.

PORTFOLIO A[3]



PORTFOLIO B[4]



- Your business and the real estate you own are considered to be illiquid assets. That is to say there is no active market in which you could easily and immediately turn the asset into cash. You will need to balance that lack of liquidity with more liquid assets in your investment portfolio. So even if an asset class has a low correlation with your business, you may need to limit the amount of that asset class in your total portfolio in order to balance your overall liquidity risk.

Bringing it All Together to Better Manage Your Risk Exposure

Every company, large or small, public or private, experiences up and down cycles. With careful data collection, these cycles can be forecasted fairly accurately to help owners plan and maximize the profits of their businesses. In the same way, that type of knowledge can also help owners plan and increase the performance of their total portfolios.

Let's look at an example of how this might work in practice: Take a distribution business that is currently worth $20 million. The owner has total real estate holdings, including his primary residence and a vacation home, of $2.5 million. He has a modest investment portfolio of individual stocks and mutual funds that he bought over the years from his broker totaling $900,000. The owner recently completed a sale and lease back of the building where his business is located that generated net proceeds of $4.1 million in cash. The owner decides to consult with a professional advisor to get some input on how a portfolio of $5 million (the stock portfolio plus the new cash) should be invested.

The owner informs the advisor that he is looking to diversify and invest the money in something that will provide a reasonable return. As the business has been doing very well there is no need for any income from the portfolio so the return can be reinvested.

Assuming the owner's financial advisor has adopted a model focused on asset allocation, a typical portfolio recommendation might be a diversified group of asset classes including domestic and international equities, some bonds and perhaps some real estate. It may look very similar to Portfolio A.

Based on historical data, Portfolio A has produced a reasonable return and has not gone down as much as the rest of the market during bad times. Looks OK right? Or is it?

Upon examining a correlation matrix, developed using the company's BMI, and comparing it to Portfolio A, you would find that most every asset class in the portfolio has a relatively high correlation with the business. This means that it is fairly likely that the portfolio will move, at least directionally, in lock-step with the business. When the business underperforms, the portfolio returns will likely be poor as well.

[3] Portfolio A is a hypothetical portfolio with an annualized return of 8.05% over the 10 year period 1/1/1999 to 12/31/2007. The maximum one year decline was 25.03% over the same period. The indices that were used to construct and back-test this portfolio and corresponding asset class were as follows: S&P 500/Large Cap Core, U.S. Small Cap Stocks/Small Cap Core, MSCI EAFE/International Equity, FTSE NAREIT/REITs, LB U.S. Aggregate/Intermediate Bond. This information has been obtained from sources we believe to be reliable. We cannot, however, guarantee its accuracy. Past performance is not necessarily indicative of future performance. The stated market indices are unmanaged indices used to measure and repeat performance of the market in general. Direct investment in an index is not possible. The investment results depicted herein represent historical gross performance with no deduction for management fees or transaction costs. Dividends are assumed to be reinvested.

[4] Portfolio B is a hypothetical portfolio with an annualized return of 7.83% over the 10 year period 1/1/1999 to 12/31/2007. The maximum one year decline was 5.95% over the same period. The indices that were used to construct and back-test this portfolio and corresponding asset class were as follows: S&P 500/Large Cap Core, U.S. Small Cap Stocks/Small Cap Core, MSCI EAFE/International Equity, FTSE NAREIT/REITs, LB U.S. Aggregate/Intermediate Bond. This information has been obtained from sources we believe to be reliable. We cannot, however, guarantee its accuracy. Past performance is not necessarily indicative of future performance. The stated market indices are unmanaged indices used to measure and repeat performance of the market in general. Direct investment in an index is not possible. The investment results depicted herein represent historical gross performance with no deduction for management fees or transaction costs. Dividends are assumed to be reinvested.

If your business is one of your biggest assets and it has not been adequately considered in your wealth management strategy, perhaps it is time you should consider it.

From a "wealth preservation" point of view, a potentially superior portfolio can be constructed utilizing asset classes that have a low or even negative correlation with the business. For example, most of the asset classes that make up Portfolio B have a relatively low or even negative correlation with the sample company. This portfolio has a significantly lower probability of being down when the business is down relative to Portfolio A. Keeping in mind the business asset, this portfolio also has substantial liquidity to balance the illiquid business and real estate of the owner, just in case the good times the business is currently experiencing don't continue. Finally, both Portfolio A and Portfolio B have about the same return expectation based on historical performance, while Portfolio B has about one third the downside potential, or risk, as does Portfolio A.

As this example demonstrates, the extra effort required to bring the business into the asset allocation mix can pay-off in the form of a more thoughtful asset allocation and a superior investment portfolio with a definite focus on wealth preservation.

The Bottom Line

John Kenneth Galbraith, considered by some to be one of America's most famous economists, said: "One of the greatest pieces of economic wisdom is to know what you do not know." Based on our experience and that of consultants like John Ward of Northwestern University and The Family Office Exchange's Sarah Hamilton, who spend their time working with business owners, many business owners do not know how the performance of their business relates to that of their investment portfolio.

As we have discussed, an investment portfolio that does not consider your business may not protect your family's long-term wealth, since the trends that move the value of the portfolio may be similar to the trends that affect the fortunes of your business. Therefore, it is crucial for your asset allocation strategy to integrate your business as one of your biggest assets. We have provided you with a simple methodology to do so.

You must also realize that real estate might not necessarily cushion your wealth throughout a volatile economic cycle. A significant portion of your company's value might already be in real estate, so you may already have enough exposure to that asset class. And, as we've recently experienced, real estate values can sag as quickly as they can soar.

Lastly, keep in mind liquidity risk. In your quest to balance your risks it is important to understand that your business and the real estate you own are illiquid. Be sure you have ample liquidity in your investment portfolio so that you can meet any unanticipated cash needs. This is particularly a concern on the downside of the business cycle when credit conditions tighten and liquidity is at a premium.

If your business is one of your biggest assets and it has not been adequately considered in your wealth management strategy, perhaps it is time you should consider it. Visit with your financial advisor and have him or her re-assess your asset allocation. Work to understand how your business behaves relative to your investment portfolio first and make any changes required to ensure they perform differently. After you have taken this important step toward preserving your wealth, you can move on to other important issues that impact asset allocation, like the need to consider alternative investments, your lifetime earnings potential and taxes.

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MC-23727 First use: 06/2008