

# WHAT'S NEXT?

Preparing for life after selling your business



*Northwood Family Office is Canada's leading independent, privately-owned boutique family office which provides comprehensive Net Worth Management™ for wealthy Canadian and global families.*



**Tom McCullough**  
Chairman & CEO

## Introduction

Let me start by congratulating you on the success of your business. Whether you have just completed the sale or are seriously considering beginning the process, it takes years of dedicated work to build a valuable company. Capturing that value through a successful sale process can be a long and arduous final hurdle; one that leaves you with little free time.

After taking some time to decompress and regain a sense of balance, you'll likely look at the funds in your bank account and wonder: Now what?

For many entrepreneurs, thinking about what life might look like after relinquishing the helm of your company is an afterthought. Business owners tend to focus on value creation within their businesses, with the substantial majority of their wealth tied up in the pursuit.

While your corporate finance advisors or private equity partners will be competent in executing a competitive and value-maximizing sale process, they often have little experience in what happens after the cheque for your company has been delivered.

But the fact is, a business sale leaves lifelong entrepreneurs with lots of questions. How do you manage your newly-liquid wealth to ensure you continue to live the lifestyle you're accustomed to? How should you go about choosing the best advisors? What are you going to do with your time?

It's with those questions in mind that this paper strives to guide you in your first steps towards successful management of your wealth. My hope is that it will arm you with the right information and advice to help you make the best decisions for yourself and your family.

Sincerely yours,

Tom McCullough  
Chairman and CEO  
Northwood Family Office

## Objectives for Your Wealth

### Managing your assets after the sale

Selling a business means that an owner's wealth will transition from an illiquid, concentrated business asset into liquid, diversified financial assets, which must be managed and structured to meet the family's goals.

Those accustomed to relatively stable earnings from the business they know so well, will now have to get used to much less predictable (and possibly lower) returns from capital markets. They'll also have to undertake complex estate and tax planning exercises. Many questions come to mind such as:

- How should we determine what we need from our portfolio?
- How will we decide the best asset mix?
- How will we determine an effective tax structure?

This is unfamiliar territory for many entrepreneurs who may not have a deep understanding of capital markets or financial planning, and who will have no direct operating influence over these new liquid investments. Entrepreneurs will also need to develop a new understanding of risk, as the range of options and complexity increases.

In this new environment, an entrepreneur will need to learn what kind of help he or she will need. Just as there was a team of senior managers to run the business, a new team will be needed to develop a management strategy for this new, liquid wealth. When thinking about advisors, most entrepreneurs will want to know:

- How will my family find qualified and trustworthy advisors?
- How will we ensure their activities are coordinated and managed effectively?
- How will we monitor them and ensure the fees we're paying are reasonable?

Managing wealth can be perplexing, and the professional and advisory firms that serve wealthy families tend to be organized by their 'silos' of expertise. As such, it is vital to have an overall manager or coordinator of that liquid wealth. A few entrepreneurs who feel they have the requisite skills, experience, interest, contacts, and time may choose to play this coordinator role themselves. But most will need to find an integrated wealth advisor (or family office) who can develop and manage a strategic plan, and integrate the advice of the other professionals.

### Define your goals

A good place to start this new journey is by understanding your wealth goals. What do you want to accomplish with your wealth? When you think about it, there really are only two things you can do with wealth. You can *spend it*, or *give it away*. Saving and investing are just what you do with money until you... spend it or give it away. Starting out with a full discussion of what your goals are (and what they would cost) is a prerequisite for every other step in the investing process.

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Goals come in all shapes and sizes but some of the most common ones (with financial implications) are:

- Funding ongoing living expenses
- Funding charitable programs
- Purchasing a vacation property
- Starting or acquiring another new business
- Providing an inheritance for the next generation

Giving some serious thought to the following four questions will help you make better decisions with your money:

1. *What is your money for?* e.g. will it be needed for daily living expenses, vacation homes, education, philanthropy? How much will each goal cost?
2. *Who is the money for?* e.g. is it for yourselves, your children or grandchildren, for other family members, charity?
3. *When will the money be needed?* e.g. is it to fund your expenses over the next 2-3 years, for children's or grandchildren's education in the next 5-10 years, or to leave to others when you die many years from now?
4. *How high a priority is each goal?* e.g. will the money be needed to fund your current lifestyle and near-term education goals (high priority), or is for optional goals in the future (lower priority)? How much will be left over after funding high priority goals?

A comprehensive approach to defining these goals will help you better understand the returns required to meet your objectives, identify whether they're achievable, and, in turn, help paint a clearer picture of the asset allocation and the level of risk required in your investment portfolio. Investments must also be viewed in context of other wealth components, including tax, estate and succession plans, risk preferences, experience and family relationships. Setting goals helps you start with the end in mind, and begin to create the roadmap.

Using a 'goals-based wealth management' approach is a sound way to manage financial assets. It suggests that the true definition of success is meeting your goals and, conversely, the definition of risk is the inability to meet those goals. In fact, your portfolio can be thought of as a series of separate 'buckets', each of which is designed to meet a particular goal and has a unique risk profile based on that goal.

To illustrate with an example, let's look at John and Susan Smith. Key facts about the Smiths include:

- John and Susan are both currently 55 years old and have two children, aged 20 and 22
- Their liquid investments, the bulk of which is in a holding company, recently grew to \$30 million following the sale of their manufacturing business
- Their goals include buying a \$5 million cottage within the next year, setting aside \$15 million to fund their retirement at their current spending level, and providing a \$10 million inheritance to their children

**Figure 1: Sample Family Goals**

**High Level:**

- Manage our money in a way that ensures a balance of reasonable lifetime benefits for our descendants and a continuing family legacy
- Encourage an entrepreneurial spirit in the family
- Develop a sense of personal responsibility and independence among family members
- Give the bulk of our charitable gifts during our lifetime so we will be able to ensure we achieve the results we want from our philanthropy
- Keep things simple

**Specific:**

- Maintain our current standard of living throughout our lifetime - \$350,000 in annual lifestyle expenses
- Purchase a \$5 million farm
- Retain \$20 million in liquidity over the next three years to fund a business acquisition
- Leave a minimum of \$5 million to each of our children upon our deaths
- Donate \$500,000 per year to charitable causes
- Maintain a \$1 million reserve fund for emergencies

Employing a goals-based approach, the Smith's portfolio might take the following structure, as a highly simplified example:

- The \$5 million cottage bucket would be invested in low-risk bonds or money market funds, due to the goal's short time-horizon and the high importance John and Susan place on having a property that provides more family time
- The \$15 million retirement bucket would be invested in a market-risk portfolio consisting of equities and bonds to fund current expenses and stay ahead of inflation
- The \$10 million inheritance bucket could be invested in a slightly more aggressive portfolio, consisting largely of equities and less-liquid alternative investments, due to its longer time-horizon

Other examples of typical family goals can be found in Figure 1 above.

A goals-based approach improves upon the most common investment framework, curiously still called *Modern Portfolio Theory* (MPT), which attempts to maximize return for a given amount of risk using a number of theoretical assumptions and complicated math. While MPT purports to provide the optimal theoretical portfolio, it can also spur investors to lose sight of their real-world objectives in pursuit of the highest returns at the expense of unnecessary risk.

Clear goals (and sensible plans to achieve them) are a critical first step to successful wealth management. Once you have determined your goals, the next step is to find someone to help you manage your investments and financial affairs so you can achieve your goals. For many families, it also makes sense to find the right set of advisors (including an integrated advisor) first and then work with them to determine, quantify and prioritize your goals.

## Selecting Your Advisors

### How do you choose?

Just as your business needed your leadership, along with the support of an adept team of managers to navigate a complex and dynamic industry, the same is true of your newly-liquid assets.

**Clear goals are a critical first step to successful wealth management**

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**The makeup of the advisory team will depend on your unique goals and circumstances**

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All families of wealth should retain a roster of skilled advisors to help them address the issues associated with significant wealth.

### **Defining your advisory team**

To start the process of choosing your advisors, you should return to your goals and what you are trying to achieve. Some people will just need assistance with investment management, but in most cases a multi-disciplinary team with a broad range of skills will be required.

The makeup of the advisory team will depend on your unique goals and circumstances, but some of the key players will likely include:

- Accountants and tax specialists
- Trust and estate planning lawyers
- Insurance brokers
- Investment specialists

Depending on the level of wealth, sophistication and complexity, many families will also need some of the following resources:

- A family office
- Discretionary investment managers
- Philanthropic advisors
- Family governance and communication advisors

Returning to the example of John and Susan Smith, let's consider how the above advisors could help them achieve their goals:

- A family office provides overall management and integration of the family's wealth, planning issues, asset mix, financial administration and family dynamics, as well as coordinating the activities of all the other advisors on behalf of the family
- Accountants and tax specialists assist with preparation of annual financial statements, personal and corporate tax returns, and tax planning strategies for their holding company
- Trust and estate planning lawyers create a Smith Family Trust to maximize income-splitting opportunities and structure multiple wills to minimize the level of assets that will later be subject to probate fees
- Insurance brokers implement life insurance policies to facilitate the effective transfer of estate assets
- Investment advisors and investment managers implement the investment strategy to achieve the returns necessary to meet the Smith family's goals

### **Identifying and evaluating advisor candidates**

After defining what specific services you require and the types of advisors, you then need to identify and evaluate appropriate candidates. When generating a list of potential advisors, solicit input from people you may know who have also recently sold their businesses, as they will likely have gone through the same process and can offer candid recommendations. You can also ask professional advisors who they typically recommend or work with.

**Figure 2: Advisor Selection – Issues Checklist**

**Credentials**

- What is the quality and tenure of the professionals?
- How much does their practice focus on private clients?
- What is the financial strength of the firm?

**Strategy and Advice**

- Does the firm / advisor have an understandable and credible philosophy and process?
- Does it have a proven, relevant track record?
- Does it take accountability for its decisions?
- Does its team coordinate well with other advisors?

**Oversight and Control**

- What is the transparency of decisions and actions?
- What is the level (quality and consistency) of the firm's due diligence?
- Does it have sufficient asset protection and insurance coverage, where relevant?
- Does it have internal and external oversight and measures?
- What are the firm's reporting capabilities and standards?

**Values**

- Does the firm have proven client satisfaction and retention success?
- Is the advisor's compensation aligned with clients' interests?

**Relationship Quality**

- Do the advisors ask the right questions?
- Do they answer all of our questions?
- Do they seem to understand and care about each client?
- Is there clear accountability for client success?
- What is the quality of their communications: clear, honest and relevant?
- Are they good listeners?
- Is there a clear client focus?

**Resources**

- Does the firm have sufficient resources for current and future needs?
- Is there a clear succession plan for key management and advisory staff?
- Does the firm make sufficient investments in technology and training?

**Conflicts of Interest**

- Is the advisor or firm unbiased, or do they have incentives to sell you a particular fund or product?
- Are their fees reasonable? Do the fees create incentives for behaviour that is not aligned with your goals?

*Source: "2020 Vision: The Most Critical Decade," BNY Mellon, 2011, Author's edits*

There are also books and other resources available to help you think through the issues, such as Family Wealth Management, Mark Haynes Daniell and Tom McCullough, J. W. Wiley & Sons available on Amazon and other booksellers.

Again, consider John and Susan Smith who, after running their manufacturing business for more than 25 years, have developed strong relationships with other business owners in their field. John reaches out to Richard Roe, a close friend who sold his business two years ago, and asks about his advisors. In doing so, John learns:

- Which advisors Richard considered, leading to several advisor options about which John and Susan weren't previously aware
- Expectations regarding fee and service levels
- Personality types of Richard's advisors
- Richard's advisor recommendations (and which to avoid)
- The discovery that Richard engaged a family office and delegated the selection of other advisors to his family office team

Evaluation of advisor candidates should be based on criteria which reflect both their concrete ability to meet your goals, as well as more subjective criteria, such as whether the firm's and advisor's personality, culture, and operating principles fit those of you and your family. Keep your list of criteria flexible, as unexpected but important additional elements may arise during the process. A suggested starting point for your evaluation criteria is included in Figure 2 above.

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**Refer to Figure 3 on the following page for the *Canadian Investment Advisor Landscape***

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When evaluating candidates for a particular specialty area, it is typically beneficial to interview all candidates within a short timeframe (i.e. a few weeks) to ensure direct and detailed comparisons can be made.

## Investing Your Wealth

### Further details on the selection of investment advisors

Given the variety and complexity of investing choices, a separate discussion of investment advisors is warranted. Whereas specialist advisors such as lawyers and accountants tend to hold standardized professional credentials (LL.B. and CA, CPA) and provide largely similar services, investment advisors can hold a wide range of professional credentials (or, frighteningly, none at all) and provide a very different range of services.

### What are your investment advisor options?

Many people who sell their businesses make the mistake of taking the 'ready, fire, aim' approach of quickly jumping into a relationship with an investment advisor without taking time to evaluate the fine print or whether other available options would be better.

Some common pitfalls of selecting an inappropriate advisor include:

- Ending up with an advisor who lacks experience with high net worth individuals and the associated complexities
- Paying excess fees (i.e. management fees or performance fees)
- Taking on unnecessary risk in the portfolio
- Choosing managers with overlapping strategies, resulting in duplication of securities holdings and reduced diversification benefits

If you were selecting a new supplier for your business, you wouldn't sign a contract with the first one to knock on your door. You'd review several options to find the most suitable supplier for your needs. Similarly, spending time to review and select an appropriate investment advisor adds significant long-term value.

Alternatively, you may have an existing relationship with an investment advisor or broker that was established prior to selling your business – a time when your portfolio and financial needs were smaller. But with portfolio assets substantially increased, it's critical to re-evaluate and ensure you have the right advisor to protect and steward your capital.

To help you understand the options, we have compiled the Canadian Investment Advisor Landscape chart presented in Figure 3 to summarize the various categories of wealth or investment advisors that exist here. Typically, a high net worth individual would gravitate towards the options on the right half of the chart.

### What characteristics should you look at?

When evaluating a potential investment advisor, a high net worth family should review the following:

**Figure 3: The Canadian Investment Advisor Landscape**

	Discount Brokers	Bank Branch Advisor	Mutual Fund / Insurance Salesperson	Fee-for-service Financial Planner	Investment Advisor / Broker	Bank Investment Counselor / Private Bank	Independent Portfolio Manager	Investment Consultant	Family Office
Average account size (est.)	\$50,000	\$50,000	\$50,000	N/A	\$500,000	\$2,000,000	\$2,000,000	\$5,000,000	\$10,000,000+
Core skill sets	Investment	Investment	Investment	Financial Planning	Investment, Some Financial Planning	Investment, Some Financial Planning	Investment	Investment	Investment, Financial Planning, Family Dynamics, Admin, Reporting
Broad service range vs. narrow	Narrow	Narrow	Narrow	Broad	Depends on the advisor	Depends on the advisor	Narrow	Narrow	Broad
Client complexity	Low	Low	Low	Med-High	Med-High	Med-High	Med-High	Med-High	Med-High
Degree of focus on HNW	None	None	None	Some	Some	Some	Some	High	Very high
No. of clients	Many	Many	Many	Many	Many	Few	Few	Few	Very few
Frequency of advisor contact	None	Annually	Annually	Only during engagement	Annually to quarterly	Annually to quarterly	Quarterly	Only during engagement	Quarterly to monthly (based on needs)
Typical revenue model	Transaction	Percentage of assets	Percentage of assets	Fixed fee / hourly fee	Transaction / percentage of assets	Percentage of assets	Percentage of assets	Fixed fee / percentage of assets	Fixed fee / percentage of assets
Independent vs. owned by bank / institution	Owned by institutions	Owned by institutions	Mostly owned by institutions; some indeps.	Independent	Mostly owned by institutions; some indeps.	Owned by institutions	Independent	Independent	Independent
External vs. internal-only funds	Both	Primarily internal	Depends	External	External	Primarily internal	Internal	External	External
Discretionary vs. Non-Discretionary	Non-Discretionary	Non-Discretionary	Non-Discretionary	N/A	Mostly Non-Discretionary	Discretionary	Discretionary	N/A	Discretionary
No. of advisors / reps in Canada	Many	Many	Many	Very few	Many	Quite a few	Quite a few	Very few	Very few
Typical staff designations	CSI designations	CSI designations	CSI designations	CFP, CPA	CIM + Access to CFA, CPA, CFP	CFA + Access to CPA, CFP	CFA	CFA	CFA, CPA, CFP, LL.B.
Typical licensing	IIROC	MFDA	MFDA	None	IIROC	Securities commission	Securities commission	None	Securities commission

CFA, CPA, CIM, and CFP designations are discussed on pages 12-13

Source: Northwood Family Office, 2017

CSI: Canadian Securities Institute  
 IIROC: Investment Industry Regulatory Organization of Canada  
 MFDA: Mutual Fund Dealers Association



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**Life is integrated;  
your wealth should  
be managed in the  
same way**

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## Typical Account Size

Advisors with a higher average account size are often more experienced in dealing with the needs of high net worth individuals and families. Additionally, advisors with larger account sizes often have the ability to implement customized strategies, including:

- Segregated account investment strategies that are simply not available with pooled fund or mutual fund investments offered by many retail advisors
- Access to, and familiarity with, additional asset classes available only to high net worth or accredited investors. These can include private equity, real estate, or infrastructure funds

Ask advisors how many clients / accounts they have and what the average size is.

## Core Skill Sets / Broad vs. Narrow Focus

Most investment advisors focus solely on investment management, however, an increasing number of advisors now hold additional designations related to financial planning, estate planning, insurance, and other specialties, which allow them to provide a broader array of services.

While the broadening of skill sets may reduce the total number of advisors you require, it also increases the importance of integration among them. Your advisors may provide overlapping service offerings, leaving them unsure of which specific tasks they're responsible for. Without appropriate integration and clear delineation of responsibilities, things can fall through the cracks. You must choose whether you want to manage this integration yourself or engage an integrated wealth advisor or family office to play the role of 'general contractor.' Life is integrated; your wealth should be managed in the same way.

## Client Complexity / Degree of Focus on High Net Worth

The complexity level of the clients an advisor manages can vary widely. A typical *simple* client might be a salaried employee with an RRSP and a personally-held taxable investment account. On the opposite end of the spectrum, a more *complex* client might be an entrepreneur with corporately-held investment accounts, a family trust, and an international vacation home, in addition to personally-held domestic assets.

Increased client complexity tends to go hand-in-hand with an advisor's degree of focus on high net worth individuals, since significant wealth typically requires customized and integrated financial, tax, and estate planning strategies. A good high net worth advisor should provide you with the ability to implement and manage planning strategies appropriate for families with substantial portfolios, and communicate them to you in a clear manner. Additionally, it's their job to recognize the unique circumstances of each of these complex clients, and provide appropriate advice based on those customized needs.

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**No particular fee approach is necessarily better or worse than another. It is simply a matter of understanding them**

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## **Number of Clients / Frequency of Advisor Contact**

Retail investment advisors typically provide service to a large number of clients using standardized products and solutions for broad market consumption. Typically, they meet with clients on an annual, or sometimes more frequent, basis.

Advisors with fewer clients, by contrast, tend to spend significantly more time with each client, meeting multiple times per year and handling a range of issues for the family. This increases the advisor's ability to provide customized and high-end service solutions, which is particularly important for exiting business owners with large amounts of liquid capital.

## **Typical Revenue Model**

Fees often complicate the investment advisor selection process. There are several different types of revenue models. Some firms charge transaction fees (or commissions) on each product or transaction. Some charge a percentage of the assets they manage for the client. Others charge a fixed fee. No particular fee approach is necessarily better or worse than another. It is simply a matter of understanding what fees you are paying, what product or service you are actually paying for, and ensuring you are receiving value for the fees you are paying.

## **Independent vs. Bank Owned**

Investment advisors who work through independent firms tend to have more flexibility in how they choose investments for their clients. They also have more control over the fees they charge. Conversely, investment advisors at large banks or institutional firms often have access to a breadth of research, technology, and in-house specialists not always available to smaller, independent firms.

## **External vs. Internal-Only Funds**

Depending on the firm, there may be restrictions on what investments an advisor can use when building client portfolios. (In some cases they can be limited only to funds and products managed by the investment advisor's firm). This could lead to the use of investments that are inferior to what is available elsewhere on the market, or a high degree of concentration of your assets with a single investment manager, unless you diversify across a number of separate managers. At the very least, it leaves the investor with the responsibility to decide which investment management firms to choose and when to make changes. Conversely, an investment advisor who is free to select from all available funds and managers can employ more flexibility in client portfolios. This is typically referred to as 'open architecture'.

Additionally, even investment advisors who are free to use external funds in client portfolios can sometimes have sales targets for in-house products and therefore may be more likely to promote them regardless of client needs, fee levels or likely return.

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**For most high net worth individuals, discretionary management is the preferred approach**

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The key takeaway here is disclosure. Ask your investment advisor if he or she has any portfolio restrictions, fee distinctions, or sales incentives so you know what you're buying and can make an informed decision.

### **Discretionary vs. Non-Discretionary Management**

This distinction identifies how involved clients will be in the day-to-day management of their investment portfolios. *Discretionary* management requires the creation of an investment policy statement (IPS) and investment management agreement (IMA) at the outset of the relationship which guide all investment decisions. Based on the IPS and IMA, the advisor can make changes in the portfolio without having to contact the client for each transaction, as long as the change complies with the two documents. Alternatively, portfolios managed on a *non-discretionary* basis require client contact and consent for each and every transaction before it's made.

For most high net worth individuals, discretionary management is the preferred approach. It lets them focus on other activities in their lives, delegating the majority of day-to-day investment-related tasks to their advisors, within the limits of agreed-upon parameters.

### **Typical Staff Designations**

Various governing bodies oversee the activities of different investment advisor categories. Each organization has different education criteria and could limit the type of investments an advisor is permitted to use in a client portfolio. Further, different classes of advisors hold differing levels of professional qualifications and designations, often with their own self-governing bodies to whom they are responsible and for which they are required to maintain continuing education requirements. The following are the most common and most relevant for high net worth families:

- **CFA – Chartered Financial Analyst**  
This global investment designation requires a rigorous self-study program that includes three exams and four years of related work experience be completed before the designation is earned. Some jurisdictions require advisors hold a CFA designation in order to manage portfolios on a discretionary basis.
- **CIM – Chartered Investment Manager**  
A self-study program offered through the Canadian Securities Institute (CSI) focused on understanding the application of portfolio management and strategies in the context of Canadian markets and regulatory requirements. Advisors who hold this designation may also be permitted to manage portfolios on a discretionary basis.
- **CFP – Certified Financial Planner**  
A comprehensive self-study program covering all facets of financial planning, including: investments, estate planning, insurance, tax, retirement planning, and more. This designation provides a solid foundation for an advisor looking to provide holistic wealth management advice.

- CPA, CA – Chartered Professional Accountant, Chartered Accountant  
A comprehensive program to train, test and accredit accounting professionals. Attaining the designation requires successfully completing the extensive coursework, examinations, and work requirements of the Chartered Professional Accountants of Canada. CPAs and CAs often bring expert knowledge in the area of tax planning, which is particularly important for high net worth families.

## Knowledge is power

When it comes to searching for the most suitable type of investment advisor to assist you in managing your wealth, it's essential to arm yourself with the right information. As you may have already found out after selling your business, there is no shortage of investment advisors who claim to be the best stewards of your capital.

## The Role of An Integrated Wealth Advisor

### Coordinating your advisors

As mentioned previously, the management of liquid wealth is a complex affair that requires significant expertise and much coordination among a variety of professionals. Integrating all of the key components of investment, tax, insurance, estate and succession planning, and family development is the most reliable way for families to extend their success after the sale of a business.

A significant choice you'll face in building your advisory team is whether you want to manage all of your advisors yourself, or to engage a family office to help you develop a wealth strategy and to coordinate and monitor the other advisors.

Some people choose the do-it-yourself option and will act as their own integrated advisor of their newly-liquid financial enterprise. This may work for a small number of people who have the desire, available time, and technical aptitude to handle the job. They need the skills to speak knowledgeably with accountants and lawyers and investment managers, consolidate financial reporting, set an appropriate asset mix to meet multiple cash flow goals, select and evaluate money managers, meet regularly with all relevant advisors, complete required tax and regulatory reporting on a timely basis, and keep all appropriate records, to name a few.

The other option is to work with a family office. A family office operates like a general contractor / architect in a home renovation project. The general contractor works with the client to map out what they want, draws up a plan, and then engages and manages the other 'trades' to get the work done.

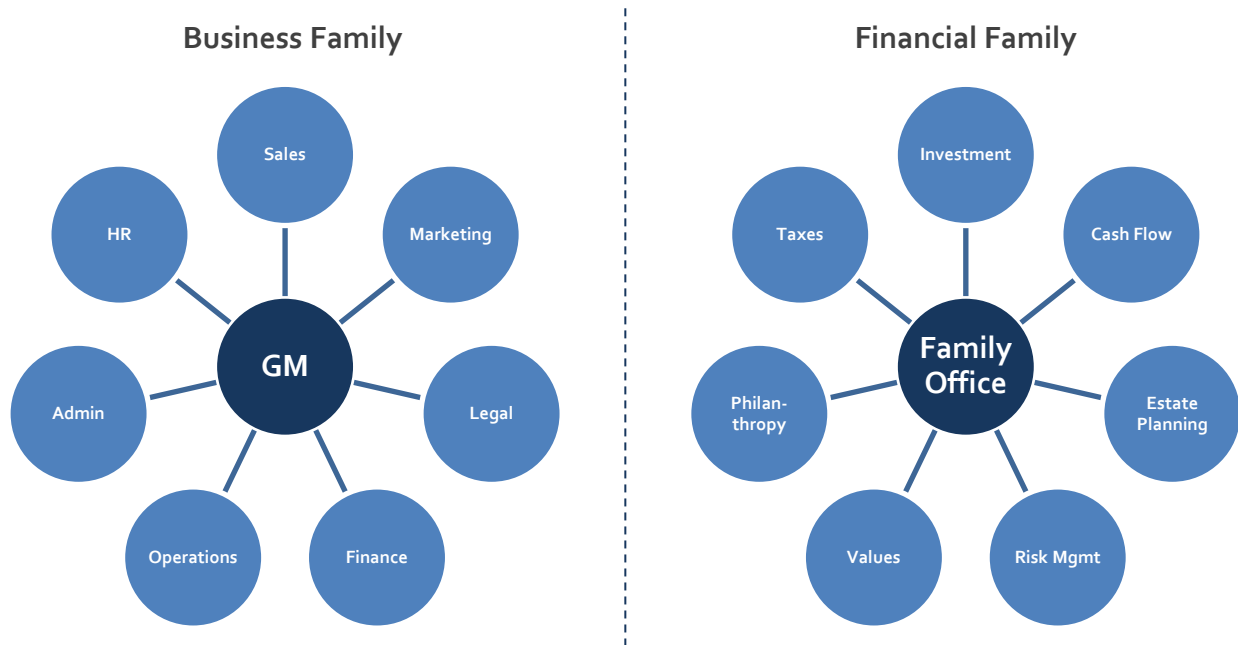
Another analogy is a general manager of a business, as seen in Figure 4 on the following page, who is responsible for making sure each functional unit of the business operates as it should. A business is highly dynamic, making it incumbent on the manager to review and adjust each unit in response to changes on a regular basis to ensure the business is running at maximum efficiency and effectiveness.

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**Who will be the GM  
of your new  
'financial family'?**

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**Figure 4: Business and Financial Families**



Source: Jean Brunel, Brunel Associates, Presentation at Private Wealth Management Summit, La Quinta, CA, June 2008

A family office plays a similar role with a family's liquid assets, setting out a strategic plan and managing the holistic decisions such as asset allocation, diversification, selection and monitoring of asset classes and advisors. A family office also looks after risk management, tax, estate strategy, and family governance and education.

The management of multiple investment managers in particular also requires significant attention and expertise. It is important to ensure that the mix of investment managers is optimal, that there is limited overlap in the securities they hold, and that the investment styles are sufficiently different to add value. It's also important for someone to stay on top of these managers and be alert to potential changes that might precipitate a review or reconsideration of that manager.

For these reasons, an increasing number of families are opting to engage a professional family office to ensure the financial family operates smoothly and their overall objectives are met. Wealth management and financial administration can be extremely time-intensive and require in-depth, ongoing evaluation of many inputs and advisors at one time. Poor coordination can lead to dropped balls and missed objectives. Additionally, the increasing complexity of capital markets, investment alternatives, and tax and legal issues requires higher levels of supervisory expertise than ever before. Having a family office allows you to take more of a 'chairman of the board' type of role that spares you from the day-to-day details. Instead, you receive reporting on a monthly or quarterly basis and are consulted on any major decisions.

**Poor coordination among advisors can lead to dropped balls and missed objectives**

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**Once a business is sold or passed on to the next generation, an entrepreneur can feel rudderless**

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It can also provide significant cost advantages to member families (such as economies of scale with respect to investment managers, custodians and other providers) so that the additional net cost of the integrated advice is often reduced. Families also benefit from the experience the family office staff gains from working with other wealthy families and can often access private investments with lower-than-average minimum investment levels.

Most family offices look after a limited number of families so service levels are typically high. There is often a \$10 million minimum level of investable assets to become a client of a family office. (See the 'What is a Family Office?' white paper at [www.northwoodfamilyoffice.com](http://www.northwoodfamilyoffice.com) under the Resources tab)

## **What a business sale will mean to you emotionally**

One final thought to consider is the human side of the equation. For better or worse, nobody's career or business lasts forever, which means every entrepreneur must one day leave the company he or she has built.

What can sometimes be overlooked in the push to complete a transaction and create the liquid wealth are the emotions attached to the sale. Once a business is sold or passed on to the next generation, an entrepreneur can feel rudderless. The business provided daily structure, a defined activity level, community, reputation, a sense of purpose, and a place to go every day. It is important to think about how you will fill the 2,000+ hours per year that you used to work in the business. These are very significant factors in everyone's life and the loss of them can be palpable.

A change of this magnitude can also have surprising effects on family and friends who may resent unexpected changes in their routines and relationships. Also, having more liquid capital can suddenly make people see you as wealthier, which can cause additional stress on friendships and family. Questions often arise about:

- What will I do with my time?
- What is important to me other than the business?
- How do I build other interests and a new community?
- How will I instil good financial values in my children once they learn how much liquidity will be freed up by the business sale?

Being aware of these potential dislocations is a good first step. You should also start planting some new seeds in anticipation of a new swath of time available in your calendar. Most entrepreneurs who have been through this stage suggest taking it slow, not making too many changes all at once, and realizing the importance of building a new sense of identity and purpose apart from the business. A survey of entrepreneurs who recently sold a business, seen in Figure 5 on the following page, reveals some common themes.

## Figure 5: Life After an Exit

### Entrepreneurs talk about transitioning to the next stage

Interviews with entrepreneurs who have sold businesses reveal seven common themes:

1. While the sale of a company marks a significant success for an entrepreneur, **selling a venture often represents a loss of identity and community**. Adjusting to the change can take years.
2. **Analyzing the true importance of the company in one's self identity, and family identity**, before the sale is critical in avoiding significant emotional stress. Broadening one's circle of friends and community, interests, and philanthropic activities before a sale can mitigate the feelings of loss many entrepreneurs experience.
3. Most entrepreneurs do not measure success in terms of financial rewards, but rather by the sense of freedom and potential legacy that these financial rewards confer. **Entrepreneurs often struggle with how best to use their new freedom and how to define their legacies**.
4. As entrepreneurs learn **to navigate their new identities as people with significant wealth, family, friends and advisors are also assessing and possibly changing how they interact with them**. In this context, finding sources for unfiltered input is critical.
5. **Identifying the right wealth management strategy, advisor, and firm is one of the biggest challenges** for an entrepreneur after a windfall. This challenge is magnified by the fact that entrepreneurs typically prefer to be active rather than passive investors.
6. **The qualities that make a good entrepreneur are seldom the same ones that make a good investor**. Entrepreneurs typically become successful by intense concentration within a narrow domain. The principles of successful wealth management, meanwhile, emphasize diversification and reliance on the expertise of others.
7. **Financial analysis and planning before and immediately after a business sale is crucial**. In the most successful transitions, entrepreneurs sought out professional advice well in advance of the sale.

Source: *Life after an Exit: How Entrepreneurs Transitions to the Next Stage*, Columbia Business School and Credit Suisse, 2015. Adapted by Northwood Family Office

## Conclusion

### Charting your course

Selling your business is a significant event on so many levels, not least of which is the management of your liquid wealth and beginning a whole new chapter in your life. We hope this paper has provided you with relevant information and advice as you begin the process of managing different kinds of assets and financial issues than you have before. Taking the appropriate steps to understand your goals, choose competent advisors, and develop a solid plan for your money and your life will dramatically increase your chances of success.

# Northwood Family Office

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