monument
wealth management

# A Case Study

## The Confidence to Sell a Business

## Chuck Presner is a **serial entrepreneur.**

In his early 30s, he sold a successful small business and worked with Monument to invest the proceeds. When he and his business partner were considering selling their current business, a consulting firm they had been building for 10 years, Chuck turned to Monument again.

With a potential sale imminent, Chuck wanted to get a handle on how much to sell the business for. He knew it was likely worth between $10 million and $15 million, but he didn't know exactly how much he needed to receive from the sale to achieve all his personal financial goals. And as a result of his earlier work with Monument, Chuck understood the need for careful planning to ensure the sale would help him be successful.

## The Need: **Enough Certainty to Pull the Trigger**

Chuck's goal was to feel confident accepting or declining an offer when one came in. To do that, he needed to know how much he had to make from the sale to meet his family's financial goals.

Chuck and his wife, Kelly, now in their early 40s, worked with Monument for a year and a half to pinpoint exactly what the proceeds of a sale would need to cover. Their goals included:

- The freedom to retire early
- Building the couple's dream home
- Philanthropic giving
- College savings for their two children

Additionally, they wanted to be sure they had a plan to integrate assets from their sale into their overall financial plan.

UNDERSTANDING WHEN TO SELL

# How much will I need to accomplish my goals?

As a first step in the sale process, Chuck and his wife needed to understand how much their goals would cost. And they wanted to be sure that they had enough to live on if Chuck never started another business and neither of them worked again.

The team at Monument tackled these issues systematically.

## THE PROCESS

**We planned for cash flow** by examining the couple's spending to determine how much they would need to maintain their lifestyle if they retired. A deep dive into the couple's expenses revealed they were spending more than they thought, about $12,000 per month. We factored those actual spending numbers into a plan for their retirement income needs.

**We developed a budget for the house.** Chuck and Kelly's dream home would cost about $2 million to build. We weighed the pros and cons of borrowing to fund construction versus paying in cash. After careful consideration, the couple decided they would borrow $750,000 to take advantage of the full mortgage interest deduction and pay the rest of the costs in cash, which would help them better manage their monthly cash flow.

**We used a Monte Carlo simulation** to run their planning scenario through a thousand different iterations of possible market performance during their lifetime to help determine how likely the couple would be to meet their goals based on different possible proceed amounts from their business sale.

## RESULTS

Using the Monte Carlo simulation, we were able to show that the couple was likely to meet their retirement and housing goals with a payout of $4 million or more after taxes. This analysis gave Chuck the information he sought to guide his decision-making once the business was on the market.

CONTINUING A COMMITMENT TO PHILANTHROPY

# How should I fulfill a pledge to my alma mater?

Philanthropy is an important part of Chuck and Kelly's lives. They are regular donors to their church and typically make their donations in cash. Two years ago, Chuck made a pledge to donate $150,000 to his alma mater. With a windfall coming, he wanted to fulfill his promise to his school.

## OUR ADVICE

**We discussed options for philanthropic giving** beyond simply giving cash. Options included donating investments such as appreciated stock, which would provide tax advantages to Chuck and Kelly.

## RESULTS

Rather than using cash from the payout to fulfill Chuck's pledge, we identified a few stocks in the couple's existing portfolio. The stocks had appreciated so much they now represented an overweight allocation in the portfolio. Selling the stock and using the proceeds to rebalance the portfolio would have incurred high capital gains taxes. Instead, we advised Chuck and Kelly to donate stock valued at $150,000 to the university, fulfilling the pledge while avoiding realizing capital gains altogether.

PLANNING FOR THE WINDFALL

# How can I generate enough income from my portfolio to replace my salary?

A year and a half after pre-sale planning began, Chuck and his partner received an offer of $12 million for the business. Chuck would receive $5 million after taxes, enough to meet his goals. Thanks to the planning we had done ahead of time, Chuck was able to accept the offer with confidence.

Large liquidity events require careful attention to asset allocation and taxes. Before the sale of the business, we worked with Chuck and Kelly to develop a financial plan that would provide the retirement income they needed, fund their children's education and be as tax efficient as possible.

Throughout the process, we discussed risk and time horizon to help the couple become comfortable with the idea of long-term investing. Specifically, we helped Chuck and Kelly understand the pros and cons of taking on more risk now to provide potential growth over time. After the sale, we were able to set that plan in motion.

## WHAT WE DID

**We designed an asset allocation** for the new money being added to the couple's existing portfolio. The allocation met the dual goals of rebalancing the portfolio where needed and avoiding generating additional capital gains for long-held assets.

**We developed an income plan for the portfolio** that would provide enough money to cover the couple's monthly expenses. The plan included investments that would provide dividend income that could function like a regular paycheck. We made sure that the portfolio would provide income right after the sale, immediately replacing Chuck's salary.

**We coordinated with the client's accountant** to determine the couple's tax liability from the sale. We determined they would owe $3 million, so we bought $3 million in Treasury notes, rather than keeping the money in cash. The Treasury notes would generate income before being sold to cover the couple's taxes.

**We opened 529 accounts to save for the children's college education.** We pre-funded two accounts with $75,000 each—the maximum allowable amount—to take full advantage of the accounts' tax-free growth potential.

## Takeaway: Confidence Comes From Careful Planning

Selling a business is a stressful event under the best circumstances. When an offer came through, Chuck didn't want to be a deer in the headlights, forced to guess about whether it would cover his family's needs.

Careful planning allowed Chuck and Kelly to determine the goals they wanted to accomplish and how much they needed to succeed. Modeling how different scenarios would affect the couple in the decades to come helped them arrive at a financial target for the sale.

With that amount in mind, Chuck was able to able to quickly and confidently accept the offer when it arrived. Thanks to all their advance planning, Chuck and Kelly could then implement their financial plan and smoothly transition to the next chapter in their lives, including breaking ground on their new home.

## About Monument Wealth Management

Life, like money, is complex. There are lots of moving parts. And it requires a lot more than just tallying up numbers to figure it out. At Monument, we specialize in taking complex, 3-dimensional problems and creating solutions that are intelligent, thoughtful, and creatively conceived.

Our niche is working with people who are coming into newfound wealth and are faced with a sudden need for meaningful advice from a Team, or as we refer to it, a Collective Mastermind.  These are typically business owners going through a sale, individuals with newly inherited wealth, and highly compensated executives with at least $5mm in assets.

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