



MAXIMIZE BUSINESS VALUE PODCAST - EPISODE 66 Transcript

Announcer (5s):

Welcome to the maximize business value podcast. This podcast is brought to you by mastery partners, where our mission is to equip business owners, to maximize business value so they can transition their business on their terms. Our mission was born from the lessons we've learned from over 100 business transactions, which fuels our desire to share our experiences and wisdom. So you can succeed. Now, here's your host CEO of mastery partners, Tom Bronson.

Tom Bronson (35s):

Hi, this is Tom Bronson and welcome to maximize business value. A podcast for business owners who are passionate about building long-term sustainable value in their businesses. So in this episode, I'd like to welcome our guest Jeff Sandene. He's the president of Sandene Strategies, a wealth management firm here in Dallas. I've known Jeff for several years. Initially, I think through business navigators, the servant leadership organization that I've talked about, that's based here and more recently through the organization that Jeff actually founded about, I think a year and a half ago to support business owners. It's called business pros. I'm a member of business frozen sit on that advisory board.

Tom Bronson (1m 18s):

Jeff has a true servant leaders heart, and I'm excited to finally get him on our podcast. So welcome to maximize business value. Jeff, tell us about Sandene Strategies.

Jeff Sandene (1m 31s):

Well, first Tom, it's a pleasure to be here. I, I know that you've been extremely busy with podcasts and I'm glad to be on there also. So Sandene Strategies is a wealth management and comprehensive financial planning firm. We'll work with business owners and executives on their personal financial planning to put, put together their vision for their future and then an investment strategy that helps them get there.

Tom Bronson (2m 0s):

Awesome. Awesome. So what's your background and how did you become a wealth manager?

Jeff Sandene (2m 7s):

Very, they, it goes back kind of deep. I have an MBA in finance and actually spent the first 15 years of my career in corporate finance, but I made a midlife sort of career decision where I wanted to be an entrepreneur, but I wasn't a software guy or an engineer, but I knew money, right? So in 1996, I got into this business. I started off on the insurance side of the business at a company that was venturing into wealth management and financial planning, but eventually after nine years, I decided to leave that because it wasn't quite the perfect environment for me. And in 2005, I founded Sandene Strategies who is affiliated with LPL financial offering securities through, through them.

Jeff Sandene (2m 56s):

And they're also a member of the SAPC and FINRA.

Tom Bronson (3m 0s):

Oh, awesome. Okay. So decided to get the scratch the entrepreneurial itch. Did we? Yes, exactly. So, so let's jump right in. Let's talk about the role of a wealth manager. You know, Jeff, when, when I engage or when mastery partners engages with our new clients. One of the things that we ask about during our assessment is the, tell us about the relationship that the business owner has with their wealth management firm. And I'm always surprised at the number of business owners that don't really have a wealth management firm, but I think that that may be because of a misperception of what wealth managers do or can do for them.

Tom Bronson (3m 44s):

So for many business owners, 80%, plus some of them over 90% of their net worth is typically tied up in their business and therefore financial assets, if they have any are relatively small compared to the value of the business, these business owners may feel that they don't need a personal financial advisor. So in what ways can a financial advisor bring value to these business owners who have most of their net worth tied up in their business?

Jeff Sandene (4m 19s):

Well, when I first started working with the business owner, I viewed the business as it should be, which is a large component of their portfolio. And it shows the first issue and that's concentration of wealth, but from a business owner standpoint, maybe what they are thinking in terms of financial advice is they don't have anything that the advisor can charge a commission on to make money, right? I mean, how is, how are you going to make money if I don't have anything to invest? And the way we make money is by giving advice, the, the plans that I, the financial plans I put together, there's a fee for that.

Jeff Sandene (5m 3s):

And it doesn't really, it's kind of like your business, where you create the plan and then they can decide whether they want to implement it themselves or not. They can choose me for the implementation, or they could choose to go someplace else or do it themselves. So that's maybe one misconception is there's advice, financial advice available for a fee out there, whether or not you have money to invest. And then if there is money to invest, we can certainly work with them on that. And if they're not maximizing their ability to create investments outside the business, that's certainly something that we'll bring up to help them diversify.

Tom Bronson (5m 49s):

You know, one of the things that I always remind business owners, when we talk about value, the value of the business, the, the business owner typically thinks that all that a wealth planner or wealth manager can do is really manage the assets. But I remind

them that when they think about the value of their business and the exit time for their business and what value they need to exit their business, wealth manager is somebody or a financial advisor is somebody that can tell them how much money they'll need to live their lifestyle.

Tom Bronson (6m 30s):

That's the way I simplify it for them, because a lot of business owners are, are throwing a dart at trying to figure out what their business is worth. Most of them do not take the time to find out what their business is worth. And therefore they're plucking a number out of the year that it feels to them like the number that they're going to need to retire on. I say, take all that guesswork out of it, get a financial advisor who can help you really peg what that number is going to be. Does that make sense? Yeah,

Jeff Sandene (7m 3s):

It does. I mean, in fact, the, the first question I asked them, if we just did an introductory meeting is what their vision for their future is. What does life look like outside of the business? And I find that a lot of them haven't given that any thought at all, which is not a very good place to end up. And I think you're familiar with some of the statistics too. I mean, if, if a business owner sells their business, but they don't have plans on what to do next with the rest of their life is a very good chance. They're going to regret selling the business because they've lost their purpose.

Tom Bronson (7m 42s):

Yeah, that's true. That, that is clearly one of the things that we really walk them through and our four step process, we want to explore with them. What does life after business look like? But we want them to get realistic. We want them to, to really understand what value they need in order to retire on. That's not, I mean, that's kind of the floor, right? We, we hope to, to great a business that's more valuable than that to give them plenty of cushion, but it's so important for them to really understand where they need to be. Because otherwise, honestly, as you and I have talked about many times, the number one reason why businesses don't sell, why there is only a 17% success rate for businesses selling is business owners do not have a realistic understanding of the value of their business.

Tom Bronson (8m 37s):

And they're pegging it typically to a number that they think they need to retire on. And again, that's why I say, let's take all the guesswork out of that. Let's get with a financial planner. If they don't have a financial advisor, then we try to pair them up with a financial advisor. And we've referred Jeff Sandene all the time. And to, to help that business owner really understand that I just, I'm so passionate about business owners, really having a financial advisor. Cause you touched on another point. That's really, really important that that not only do they need to think about what they're doing in the future, but if they're planning for that exit, it's important to be able to allocate their assets properly, right.

Tom Bronson (9m 23s):

Going forward in their estate plan in their, in their, in their financial plan. And so, so I'm a big fan of planning way in advance. I wonder how many times do you get a call from a business owner the day after he sold his business that I have this big check now, what do I do?

Jeff Sandene (9m 42s):

Well, unfortunately that doesn't happen very often, but that's not really my style anyway, to parachute in after the deal's done. I mean, I'm much like you and I'd rather be part of the process. Absolutely.

Tom Bronson (9m 54s):

I really think that as I think about the people that need to surround a business owner, a financial planner is absolutely a key seat at that table. You know, along with a CPA and a great business attorney, perhaps an estate planner, you know, certainly a value advisor, someone like us who can help improve the value of the business, but there's a lot of seats and, and, and the financial advisor is absolutely key to that. So, so we've kind of taken a little sidebar here, but, but let's get back on, on creating a financial plan. How do you go about creating a financial plan for a business owner?

Jeff Sandene (10m 33s):

So one of the things I like to do is go through a little exercise with business owner and spouse. And I have, I have the make a bucket list. It's like, money's no object. What are the 10 things that you want to do before you check out? Right? And some of those will factor into the retirement plan. And it's a nice exercise to get them thinking about things. And then what we'll do before we even create a financial plan, we'll, we'll put a price on those. So if one of the things they want to do is travel to all seven continents, including Antarctica. You know, we'll do research on what that type of trip would cost and put it into the plan.

Jeff Sandene (11m 15s):

And so what we end up with is their vision for their future at, in future dollars. And then we discount that back as to what they need today. And that's where the value of the business comes in. So you want to do all of these things, will you need \$4 million in five years to do that. And you can just use major basic discounting to come up with what the value of the business and the rest of his assets needs to be today and find out what the gap is between their plan, what they said they want to do and what their business is actually were. So that's where the connection comes in.

Jeff Sandene (11m 56s):

And at this point we still don't know what the business is worth. We know we have what their idea of what it's worth, but that that's oftentimes a place where we bring in, you know, somebody to give us a better idea of what the value of the businesses today,

Tom Bronson (12m 15s):

Of course, as you know, by the time that we've actually made an introduction to a business owner, we've already calculated what the business is worth, what it would trade for on the market. And, and that's typically an eye-opener for them, but then we have a baseline and then our next step is really to get that financial advisor involved so that we can determine what the value of the business needs to be, because then we know where it is and we know where it needs to be. Then we can build a strategy to get there, right. That's that is such a key part of the beginning of our process with our clients. So, so I love that. I assume that you take into account all that kind of the other things, the normal expenses and stuff that they have to that's going to sustain them.

Tom Bronson (13m 0s):

That kind of thing too.

Jeff Sandene (13m 2s):

Yeah. The other important document that they put together is their household expenses today. And then we can talk about, you know, whether they stay or go or increase her.

But the, the financial plan itself is actually a very cashflow based document that considers taxes, rates of return, the different investments.

Tom Bronson (13m 25s):

I love that. I'm going to, I have about 1.5 million frequent flyer miles. I'm just going to use those to go to Antarctica. So Antarctica by the way, is not on my bucket list. If I'm going to be in the freezing cold, I'm going to be standing at the top of a mountain with some wax boards strapped to my feet.

Jeff Sandene (13m 46s):

It sounds like a good plan.

Tom Bronson (13m 48s):

So what, what's the biggest challenge of financial planning process of the whole process that you go through? What is the big, or what are, what are some of the challenges or what's the biggest challenge in the process for business owners?

Jeff Sandene (14m 2s):

Well, the biggest challenge actually is to get them to start and, and actually go through the process. I mean, a financial plan with me, we'll take three meetings over the course of a month and they're not short meetings either. So the business owner has to be committed to it and, you know, be ready to sit down and, and that's, and that's where the spouse comes into play. A lot of times it's like, you know, we need to do this. You know, you just need to take the time to do this. So it's, it's definitely a family endeavor. And then, you know, the though with business owners is, you know, they're, they're so

focused on day to day operations that just to get them to get their head up and, you know, look past this week is probably the biggest challenge.

Tom Bronson (14m 56s):

That's, that's clearly the biggest challenge that we have to you're you're right. I, I call it stirring the sauce business owners who are so involved in the day-to-day operation of their business, that by the way, lends itself to owner dependency, which reduces the value of the business. So we try to encourage our business owner clients to really kind of get above that fray so that they have more time to think strategically about their business, the greatest ideas in the business typically come from them. And, and so not only that, but the greatest ideas about the future, their own future would also come from them. But if you don't set aside that time to plan in advance, then, then, then the future is just going to happen to you.

Tom Bronson (15m 41s):

I like to say. And so, so we, we were a very common issue with us too, because business owners are very focused typically on their business. They need to sometimes move just a little above that and get up to a 50,000 foot view so that they can focus on the other things that are really important often to the future. You know, one of my favorite questions to ask business owners is what happens to your business or more importantly to your family, if something happens to you and typically that causes them to, to be a little bit more introspective and has them, it forces them to step back a little bit and think about those things. So are there some common blind spots that business owners have in respect to their personal finances?

Jeff Sandene (16m 27s):

I came up with an interesting one just in the last month or so, and, and it's with respect to diversifying their, you know, their asset portfolio, many business owners, don't trust financial markets. They don't trust wall street. And they say, you know, I can take half a million dollars and buy this piece of piece of equipment and I know what that's going to produce and how that's going to affect the bottom line, but they don't think about, so they compare that it's like, what can you get me with that half a million? And of course we can't promise anything, right? And they don't trust wall street already.

Jeff Sandene (17m 8s):

And it's like, I'm just gonna invest back in my business, which exacerbates the problem of asset concentration. It's, it's taking them away from being diversified. So I think that's a pretty big blind spot it's it's trusting themselves and not delegating the trust to professionals and other areas of finance.

Tom Bronson (17m 31s):

You know, you, you talk about, you know, concentration risk. We talk about that in two contexts, of course, the, the financial concentration rates that you're talking about, but also very common in businesses is customer concentration risk where there's a high percentage, the revenue is tied to one or two or a handful of customers. And that's business owners intuitively understand that that is risky, right? I wish that they understood more that, that a, a concentration risk in their financial assets is just as risky. So, so I'm glad that you brought that up.

Tom Bronson (18m 13s):

We're talking with Jeff Sandene, let's take a quick break and we'll be back in thirty seconds.

Announcer (18m 19s):

Every business will eventually transition some internally to employees and managers and some externally to third party buyers. Mastery partners equips business owners to maximize business value so they can transition their businesses on their terms. Using our four step process. We start with a snapshot of where your business is today. Then we help you understand why you want to be and design a custom strategy to get you there. Next, we help you execute that strategy with the assistance of our amazing resource network. And ultimately you'll be able to transition your business on your terms. What are you waiting for more time, more revenue, if you want to maximize your business value, it takes time.

Announcer (18m 60s):

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Tom Bronson (19m 12s):

We're back with Jeff Sandene, president of Sandene Strategies. And we're talking about the role of a financial advisor for business owners. Now, of course, I can't ask you any specific investment advice. I mean, that's against the rules and you told me that that was off the table. And so, but, but let's talk about some other things. What are some financial implementation ideas that would, that should increase a business owner's net worth over time? I hope I'm not getting into a dangerous area there.

Jeff Sandene (19m 45s):

No, I mean, I, I think what you, well, we can talk about our different vehicles. I ver very common. Well, first of all, make the very first question is, do you have a 401k plan within your business? And are you maximizing that? I mean, that's, that's kind of step one, but depending on what they, what they want to do and what their business cash flow is, there's ways to turbocharge a 401k plan with profit sharing and other pension benefits that can really lead to the business owner, putting a lot of money away. If they have the cash flow to support that, which will help their diversification building assets outside of the business.

Jeff Sandene (20m 29s):

So what we'll look at is, and again, that's, that's just, that's not necessarily me even managing the money for them. That's just part of the financial advice that they should be getting, which is independent, unbiased advice. And so that's what I'm going to look at. I'm going to look at ways for them to, to build their, their total net worth and reduce the concentration risk of their company. I also have read a interesting book called every family's business. Have you read that one yet? No,

Tom Bronson (21m 8s):

But now it's going to go on my list. You know, how much I read

Jeff Sandene (21m 13s):

The, it, it talks about for multi-generational. If say if a business owner has multi-generation plans and ideas, how to treat the business as an asset, but that the next generation may not run the business, the same business or the existing business the same way. And so we can get them talking with their family about what the rest of the intentions are for their kids, or, you know, whoever's next in line to, to take that business over, over if that's something that they have planned.

Tom Bronson (21m 54s):

I like that treating their business as an asset too many times, it basically just becomes a vehicle to support their lifestyle. And that's a, that is a giant mistake. I'm going to get this book every family's business. Is that what you said is yeah,

Jeff Sandene (22m 10s):

Next time I see I'll give you a copy. I've got an extra one.

Tom Bronson (22m 13s):

Well, I'm hoping that maybe I'll see it tonight. Who knows? So I'll come right over, you know, you bring up a great point and one that I've heard many times before, the whole 401k issue, of course, many, both business owners take advantage of that because there are some, some rules for accelerated, you know, opportunity to put some cash into, on a retirement plan. A lot of business owners set up 401ks for their employees, but don't participate because they're, they believe that the value of the business is going to take care of their retirement. And personally, I just, I think if you've got the vehicle and the, and the ability to be able to, to do that, that is a smart, smart, smart way by, by participating in a 401k, even if it's your own business to diversify the portfolio.

Tom Bronson (23m 7s):

So is that what I'm hearing from you?

Jeff Sandene (23m 10s):

Absolutely. And here's interesting thing that most business owners probably don't know is if you, if you turbocharge a 401k for yourself, the tax savings will be enough to fund the portion. That is a contribution to the employees.

Tom Bronson (23m 29s):

I did not know that it's

Jeff Sandene (23m 31s):

Almost like you're spending free money benefit for the benefit of the employees. So, I mean, I was shocked when I first saw that, but I've seen it twice in the last month.

Tom Bronson (23m 44s):

Holly, just a question to Sandene Strategies. Do you guys handle 401ks for businesses?

Jeff Sandene (23m 50s):

What I'll do is I'll meet the business owner and if they have an interest, I have a specialist that puts together 401k and pension plans. Oh,

Tom Bronson (23m 60s):

Right. Okay. Got it. Got it. I didn't know if that was part of your portfolio, in fact that I'm sitting here going, huh? I wonder if he does that, so as much as I know about your business, right? Cause we, we talk a lot. So what recommendations can a financial advisor make to potentially increase the value of a closely held business?

Jeff Sandene (24m 23s):

You know, I think just making sure the business owner is aware of some biases that he has with respect to the business and, and back to treating the business as an asset, he should, he should, when he's looking at investing more money in the business, really take a close, look at the return on investment that he's getting out of. And is that the best use of his capital? So we can have those times not to tell him how to run his business, but to make sure that he's, he or she are not just sending good money after bad, if it's chasing a bad idea.

Jeff Sandene (25m 3s):

One, one problem that people in general have is they fear sunk costs. So if he has, if there's a project project or an maybe an unprofitable part of the business and he needs

to make an additional investment to support that unprofitable business, you almost have to look at that as starting from this, this dollar. If I spend this dollar on that project, is that the best use or do we just need to cut ties with it and stop whatever that is that's draining. So that that's part of where I'll put a business owner's hat on and consult with them on ways to make good investment decisions with respect to their company's capital.

Tom Bronson (25m 51s):

Yeah. That's a, that's a real challenge. A lot of times business owners sometimes mistakenly think that if I just can keep investing in this and it's, it's killing me right now. But if I keep investing, I'll be able to turn it around, but that's a serious issue, right? That, that, that, that sometimes it's just better to cut your losses, move on and go make money some other way. So I like that. And in terms of advice like,

Jeff Sandene (26m 20s):

And I actually run into that often in managing people's portfolios where they're, they, people in general do not want to sell losing investments because it admits they made a mistake. It's an admission of error that they bought something they shouldn't have done. That's called this disposition effect. And it's one of the many biases that affect people in finance.

Tom Bronson (26m 47s):

Well, I hadn't really thought about that. I'm always looking toward the end of the year with my financial advisors to pick out the losers. I can reduce my tax consequences. Right. Yeah,

Jeff Sandene (27m 0s):

Exactly. And you know, yeah. It doesn't feel good to admit that you've made an investment mistake, but you're right. I mean, you do get to write those losses off against other gains a lot of times.

Tom Bronson (27m 13s):

Yeah, exactly. If I, if I've had games, then I do my best to offset it because I want, I want it to be a net zero if I can, unless it's something that I, but I just feel very strongly about it's a segment or a business that I strongly feel is going to come back. But, but of course I have to recognize that I have no control over that too. So, you know, owning a security is you're putting your trust in the people that run that business much like the investors that I've had in my businesses, they put their trust in me to run the business and give them a return on investment. So, so interesting thoughts there, look, there are literally thousands of people.

Tom Bronson (27m 56s):

Yeah. Probably even here in the metroplex, that, that, by the way, for those listeners that are outside of the area, the metroplex is what we call the Dallas Fort worth area. But there are literally thousands and thousands of people positioning themselves as financial advisors to business owners. What are some useful criteria for business owners to narrow the field of candidates that they want to interview for, for the job of being their financial planner?

Jeff Sandene (28m 25s):

Excellent question. And there's some real basic things to look for. I would, first of all, not work with anybody that's in the first five years of being in the business, the, the five-year retention rate for somebody that gets in this business is 20%. So four out of five people who get in are not there in five years. So you definitely want to work with somebody that's experienced. I believe that I'm working with someone who has fiduciary responsibility and one way you could automatically get that is by working with a certified financial planner. We have a code of ethics that we adhere to and we hold ourselves to fiduciary standards, but there's also a regulatory standard that's that's put out by the, the department of labor has a fiduciary standard.

Jeff Sandene (29m 23s):

And it's basically holding yourself out to act in the best interest of the client, which seems like nonsense. I mean, why not? Why wouldn't they? But for example, just if, if there's an investment that is it's where the advisors being compensated by a commission, that would be, that's a conflict of interest that needs to be disclosed

fiduciaries. Generally speaking, do not do commission business. They're just doing based on fees for assets, under management or fees for advice.

Jeff Sandene (30m 3s):

So those are a few things I would, I would definitely work with someone who's experienced and work with a fiduciary. And you can just ask if they're functioning as a fiduciary.

Tom Bronson (30m 14s):

Yeah. I like that. That's really important. And, and sort of a nuance. There are a lot of firms out there that don't act as a fiduciary. And so if you don't know what that means, then, then, then be sure to get involved at before you make a decision who your financial advisor's going to be, be asking those kinds of questions. I think those are great questions. Anything else that you want to add there? Is that kind of the way to look at it?

Jeff Sandene (30m 40s):

I would say that's, if you, if you ask those two questions, you're gonna, you're probably gonna end up with somebody who knows what they're doing.

Tom Bronson (30m 48s):

So one last business question, this podcast is all about maximizing business value. So what's the most important thing you recommend business owners do to build long-term value in their business?

Jeff Sandene (31m 2s):

Well, you know, I, I kinda, I looked at that question and I, I hear that question. And I think the idea is to build wealth it's to build, build the business, maximize the value of the business so that they're increasing their wealth. And I, I come back to treating that business as an asset and having a family plan that deals with that business so that it maximizes the wealth of the family. And that's, from my perspective, just making sure that conversations within the family are happening to, to allow that business, to really leave a legacy and really do great things for that family is, is my best advice.

Tom Bronson (31m 55s):

I like that. I think that's really important and something that a business owner should give serious consideration to. So of course, I know you're a listener to my podcasts and for our long time listeners, they're always looking forward to this question. I always ask the bonus question, Jeff, what personality trait has gotten you into the most trouble through the years? Well,

Jeff Sandene (32m 18s):

I think it's one that you're aware of. I am very detail oriented and what it helps me in my day-to-day dealings with clients and money, for sure. But from a business owner's standpoint, it's probably held me back in terms of scaling up and getting the growth that I could out of the firm. And it's an issue that I'm aware of that I can take steps to fix. One of my ideas is to get a junior Jeff inside the firm that will take equally good care of my clients so that I can be more strategic in thinking about the business.

Tom Bronson (32m 60s):

Yeah. That detail orientation is challenged. Right. And so a little bit of perfectionism coming out of you, Jeff, but Hey, that's the rate that I want the most from you as a financial advisor, but, but you're right. It also hinders a, a business owner being able to make progress. So how can our viewers and listeners get in touch with you?

Jeff Sandene (33m 26s):

For sure. I'm open on email jeff.sandene@lpl.com. My phone number at the office is 972 789 1201. And I love talking to business owners. We're not w what they'll have to be ready for though, is we're not necessarily going to talk about wealth management. It's, you know what it's going on in the business and how can I help you to solve the issues that are most important to you in your business?

Tom Bronson (33m 59s):

That's so very important. It's one of the things I love about you, Jeff, you are such a servant leader and have a certain leader's heart. And so you're there not only to

potentially get a client, but to help the people that you work with. And I, and I just love that about you. So thank you for being our guest today.

Jeff Sandene (34m 18s):

You're welcome, Tom. That was a blast. I really enjoyed visiting with you.

Tom Bronson (34m 22s):

Awesome. You can find Jeff Sandene at www.sandenestrategies.com or on LinkedIn. And of course you can always reach out to me and I'd be happy to give you a warm introduction to my good friend, Jeff Sandene. This is the maximize business value podcast, where we give practical advice to business owners on how to build long-term sustainable value in your business. Be sure to tune in each week and follow us wherever you found this podcast. And don't forget, we love your comments, and we love your suggestions for future podcast. So until next time, I'm Tom Bronson reminding you that you would need to hire a great wealth management firm.

Tom Bronson (35m 8s):

Even if you think you don't need one. Now, while you maximize business,

Announcer (35m 17s):

Thank you for tuning into the maximize business value podcast with Tom Bronson. This podcast is brought to you by mastery partners, where our mission is to equip business owners to maximize business value so they can transition on their terms. Learn more on how to build long-term sustainable business value and get free value building tools by visiting our website, www.masterypartners.com that's master with a Y masterypartners.com.

Announcer (35m 46s):

Check it out.

Tom Bronson (36m 2s):

<inaudible> that was perfect. I wouldn't make any changes.