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Your Money: Starting a new business is tough on cash flow, but there are short-term solutions

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By **Karin Price Mueller/The Star-Ledger**

Ian, 56, has taken a huge career risk that he hopes will eventually pay off.
"Since leaving corporate and starting my own small business, I have much less income," he says. "So making sure that I keep my investments growing to use some of that income while I build my business is important."
The single man says he's not especially worried about retirement because he has some assets and expects to inherit some money someday. Still, he says he wants to make sure his planning is on track.
Ian, whose name has been changed, has saved $376,000 in an IRA, $300,000 in a brokerage account, $40,000 in mutual funds, $20,000 in savings and $1,000 in checking. In addition to his home, he also owns an investment property that brings in $11,200 a year in rental income.

The Star-Ledger asked ***Claudia Mott, a certified financial planner with Epona Financial Solutions in Basking Ridge***, to help Ian transition his finances to help his business grow.
Mott says it's all about cash flow.

"While revenue has been growing since the business' inception two years ago, it is not generating enough to cover his living expenses — yet," Mott says.
In order to make ends meet, Ian plans to sell some of the stock in his taxable account. While this strategy may work in the short run, Mott says, Ian needs to look for other ways to ease his cash flow challenge until the business income covers his living expenses.
He should start by reviewing his budget.
Ian's living expenses total approximately $75,000 per year with almost two-thirds of that related to his home and its costs. With his current income situation, refinancing his existing 15-year loan for a longer-term in order to reduce monthly payments will likely be impossible, Mott says.
"While he may not want to sell the home now, it may be something he needs to consider if the business income doesn't improve in the next year or two," Mott says.
She says Ian's other expenses are pretty conservative and don't offer many options in terms of creating savings. He does donate $250 a month to charity, and that's one item that can be put on hold until his cash flow position improves. That would be savings of $3,000 a year and $3,000 less he needs to take from his portfolio.
Mott learned that Ian is acting as a trustee for a number of accounts whose beneficiaries are relatives. He's responsible for overseeing the investments, making distributions, organizing and filing the tax documents and maintaining the account paperwork.
In New Jersey, Mott says, trustees are eligible to receive compensation for performing these duties. The fee is determined with a formula based on the account value. For example, a $500,000 account could lead to a $2,900 fee, she said.

Next, Mott says Ian has almost 100 percent of his brokerage account invested in stocks that do not pay a dividend, so the portfolio isn't providing any help with his income needs.
"By shifting some of the stocks to individual bonds and replacing the non-dividend paying stocks, he might be able to earn 2 percent from the $334,000 that is held in the account," she says. "This could potentially be $6,600 in pre-tax income."
Added together, eliminating charity, taking a trustee fee and creating income from the portfolio could improve Ian's cash flow by $12,500 per year, reducing the annual shortfall to $6,800.
Mott says Ian's emergency fund of $20,000 is too small. When cash flow improves, he should aim to have six to nine months of expenses, or between $37,000 and $56,000, in an emergency fund.
Taking a look at the rest of Ian's investments, Mott says the portfolios are too concentrated — both in their exposure to one industry sector and to one stock in particular. Also, the risk profile of the current holdings is well beyond Ian's actual comfort zone.
"Whether his goal is short-term cash creation or a long-term source of retirement income, he would likely benefit from a substantial adjustment in how the portfolio is allocated and invested," Mott says.
Mott asked Ian to complete a risk tolerance survey, which showed he would be comfortable with a portfolio that has 50 to 65 percent in stocks. The current portfolio, though, is 91 percent stocks, and 72 percent of that is in the biotechnology sector.
Further, one stock makes up 50 percent of his holdings.

NET WORTH
Assets:
Checking: $1,000
Savings: $20,000
IRAs: $376,000
Brokerage Account: $300,000
Mutual Funds: $40,000
Primary Home: $700,000
Personal Property: $100,000
Investment property: $188,000
Autos: $20,000
Total Assets: $1,745,000

Liabilities:
Mortgage: $231,000
Total Liabilities: $231,000

Total Net Worth: $1,514,000

BUDGET
Annual Income:
Business income: $16,000
Rental income: $11,200
Gifts from relatives: $28,000
Monthly Expenses:
Income Taxes: $1,051
Housing: $3,678
Utilities: $525
Food: $368
Personal Care: $136
Transportation: $353
Medical: $720
Entertainment: $56
Vacations: $84
Charity: $250
Gifts: $36
Misc.: $25