

## Family Business Succession Planning: What It Is, Why It's Important

No one likes to think about aging-related issues such as retirement, debilitating illness or death. But, almost everyone agrees on the importance of planning for such eventualities. And, never is such planning more important than when you are the steward of a family-owned business. Developing and implementing a business succession plan is essential to seamlessly passing down the company to future generations. It's not difficult, but it does require careful thought and a business-like approach.

While family-owned businesses share many positive attributes, they also face many of the same challenges to success. It's important to note that only one third of family businesses survive to a second generation and only one third of those survive to a third (the so-called Rule of Thirds). Possible stumbling blocks include general reluctance to talk openly and frankly about aging, death and money, family discord, and allowing relationships and emotions to take over. With so many obstacles, how do family-owned businesses succeed?

Successful family-owned businesses have certain common characteristics. For example, they don't represent any specific industry or sector and are typically flexible and innovative.

Also, the current owners have respect for founders, maintain a strong historic business culture (what *inc.* magazine referred to as the "success gene") and rely heavily on their reputation for integrity. Additionally, many family-owned businesses utilize outside board members and managers. Finally, successful family-owned businesses have in place a well designed succession plan. Here's how they do it.

There are several things to keep in mind when contemplating a succession plan: (1) Determine if you want to be a family-first business or a business-first family; (2) Plan early. A succession plan should be created before or simultaneously with the business plan; (3) Be sure to involve appropriate family members in discussions and don't be afraid to talk about money. Always look at the family realistically and think like a business; (4) Get over the idea that everyone in the family has to have an equal share of ownership or compensation; (5) When choosing successors, make sure they are qualified, then train them and work with them; (6) Consider getting outside, unbiased help from a trusted advisor.

Of course, once a business succession plan has been developed it must be implemented. So what needs to be done to ensure the successful implementation of the plan? The following steps are a good place to start.

First, keeping the family engaged (including those family members who have no day-to-day control) is critical when developing a succession plan. A **family meeting** will ensure that everyone is up-to-speed on what is happening with the company and can help prevent possible litigation during the succession process. It is also a chance

to identify what's really important to the family (keep the business in the family, sell all or a portion of the business, take the business public).

Then, once you have determined what's important in relation to the future of the company, define specific objectives and create a **vision statement**. Having solid objectives will help ensure smooth implementation of the succession plan and a vision statement will define for future generations the direction company management should take.

Next, determine **ownership, control and management succession**. Some families may wish to sell all or a portion of their company thus relinquishing or diminishing their level of ownership and control. Whatever the case, it's essential that ownership and control issues be spelled out clearly in the succession plan to ensure a smooth transition. In some cases, family-owned businesses are managed by outside professionals who provide CEO- or CFO-level expertise. In others, family members have complete control over day-to-day operations. In either instance, creating or updating a succession plan may require identifying, hiring and training one or more individuals to assume leadership positions within the organization. This part of the process should include reviewing and possibly updating wills, trusts and insurance policies.

As you create your succession plan, it's a good idea to have the company **valued** by a professional. Having a true value will allow your wealth manager to plan for possible costs related to succession (taxes, ownership or management buyouts, fees related to a possible

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sale of the company, etc.). As mentioned, you must take into account possible tax consequences. For example, if ownership of the company is transferred as a gift, taxable gain will be calculated on a carry-over basis based on the original value of the company. If ownership of the company is transferred upon the owner's death, the taxable gain is calculated based on the fair market value of the company at the time of death—or an alternative valuation date as prescribed by law—not the fair market value at the time the company was founded or purchased. There will certainly be capital gains tax issues if the company is sold.

Perhaps most importantly, take a **team approach**. While very manageable, succession planning can be complicated and requires difficult choices both personal and professional. That's why succession planning *must be part of an overall wealth management plan*. That means involving your investment, tax and legal advisors.

To summarize, a successful **business succession plan** will benefit not only your family, but all of those who have helped your company grow through the years. Employees, clients, lenders and suppliers all play a crucial role in the success of your company. A well-crafted succession plan emphasizes your commitment to the long-term growth of the business and will engender confidence among these key players helping ensure the continued success of your company.



### A Word About Our Custodian

Our custodian, Schwab Institutional, is a division of The Charles Schwab Corporation, one of the nation's largest financial services companies with over \$1.4 trillion in client assets. Schwab Institutional pioneered the registered investment advisor custodial business over 20 years ago. The company represents 5,500 independent investment advisors such as D. L. Blain & Co., LLC and custodies approximately \$575.3 billion in client assets.

Protection for securities and cash in accounts custodied by Schwab Institutional is provided by the Securities Insurance Protection Corporation (SIPC). SIPC protection takes effect in the event a brokerage firm fails owing customers cash and securities missing from customer accounts. SIPC provides up to \$500,000 of protection for client accounts held in separate capacity (e.g. joint or individual), with a limit of \$100,000 for uninvested cash balances.

Additional insurance is provided by Lloyd's of London and is available to our clients in the event that SIPC coverage is exhausted. Lloyd's coverage provides protection of securities and cash up to \$600 million and is limited to a combined return to any client from a trustee, SIPC and Lloyd's of \$150 million (including cash of up to \$1 million). Simply put, assets placed with our custodian, Schwab Institutional, are safe and secure.

**NOTE:** The Schwab Funds Board of Trustees announced that all Schwab money market funds will participate in the U.S. Treasury Temporary Guaranty Program (the U.S. Dollar Liquid Assets Fund is not eligible to participate in the Treasury Guaranty Program because it is not a U.S.-based money fund). Also, the Board says the funds invest only in high quality money market instruments that present minimal credit risk, meet strict diversification requirements, and mature in 13 months or less.



### Back to the Future: 70s Style

Between November 1973 and March 1975, the U.S. experienced one of the worst recessions in its history. Unemployment was at 9%, inflation rose to 11% and the stock market plunged 48%. Many pundits today are drawing startlingly negative comparisons between then and now but the downturn during the 70s also had some remarkably positive outcomes. Let's take a look at some of these events and the lessons they can teach us today.

**Events:** In late 1973, the Federal government published its first miles-per-gallon report. The Toyota Corolla

trailed only the Honda Civic in a ranking that today has become ubiquitous as a sales incentive. In response to their "#2" status, Toyota stuck to a plan to strengthen its brand for the long-term and passed Volkswagen as the number one import car in the U.S. **Lesson:** Don't necessarily spend less, necessarily spend more wisely.

**Events:** As the price of jet fuel soared in 1973, FedEx took off under the leadership of Fred Smith. Time, Inc. introduced *People* magazine in 1974 and in 1975, Bill Gates and Paul Allen launched Microsoft. **Lesson:** Anytime is the right time to start a new company or rollout a new product as long as you're selling something consumers need or want.

**Events:** 1975 was a big year for financial services. Despite—or because of—one the biggest market declines in history, Charles Schwab introduced investors to discount brokerage and John Bogle started Vanguard Group by promoting index funds. Thanks to a regulatory loophole, banks introduced interest-bearing checking accounts, something we take for granted today. Also, credit card issuers experienced an early breakthrough when forward-looking grocery chains began accepting plastic for payment. **Lesson:** Difficult financial times call for innovative financial solutions.

**Event:** In 1974, Warren Buffet acquired a 10% stake in Interpublic, then the largest ad agency, and took a big position in privately-held Ogilvy and Mather. He sold those positions in the mid-80s. Recently, Mr. Buffet expanded his holdings in the financial sector by investing in Goldman Sachs and General Electric (the parent of GE Capital). He is already the largest shareholder in Wells Fargo, the recent winner in the Wachovia stakes. **Lesson:** Even hard hit sectors in depressed markets create opportunities.

At D. L. Blain & Co., LLC, we aim to learn the lessons presented by unexpected events and create opportunities for our clients.

## Three Legs of the Retirement Stool and Asset Structuring



There was a time when the three legs of the retirement stool were Social Security, pensions, and personal savings (those legs were typically constructed with the traditional asset categories of stocks, bonds and cash). But with doubts about Social Security's continued solvency, the decline of traditional pension plans, and savings rates at or near zero, those old legs look a little wobbly.

At D. L. Blain & Co., LLC, we believe that paper assets, ownership in operating businesses and income producing real estate provide a more stable stool for achieving your retirement goals. And, the glue that holds the new stool together is proper asset structuring (yes, small business and real estate are assets). But how does our firm define, determine and deploy proper asset structuring? Let's take a look.

Asset structuring describes the manner in which the elements of any asset pool are organized or interrelated and it serves several purposes. It provides diversification, dampens volatility, spreads risk, and helps provide positive returns in different economic environments. But most importantly, proper asset structuring makes it more likely that you will achieve your financial goals. Here's how.

First, we diversify paper assets through proper allocation. Paper assets such as stocks, bonds and cash are allocated across asset classes, geographic locations, industry sectors and individual securities.

In addition, we provide CFO-level consulting services to help grow your family-owned business. This includes strategic tax planning, capital management and succession planning.

Finally, we have the knowledge and experience to help you construct a new real estate portfolio, get the most

out of your existing portfolio, or liquidate a portfolio while limiting any related tax liability. Of course, we approach proper asset structuring within the context of an overall wealth management plan.

Given the complex nature of wealth management and the sheer number of financial options available, we know financially successful individuals and families want and need the kind of comprehensive solutions that our wealth management services provide.

For clients who do not have a family-owned business (and for some that do), private equity offers a chance to invest in companies which are not typically traded on organized, public exchanges. Because private equity may entail greater risk than public market securities, investors must meet certain regulatory requirements relating to net worth, income and assets under management.



## 2008 Reader's Choice Awards—Best Financial Advisor

### Who We Are, What We Do

#### New Trust Service

We are pleased to announce a new partnership with Charles Schwab Bank to offer comprehensive administrative and charitable trust management and trust reporting services. The partnership enables us to assist those families and individuals seeking asset management with trust administration.

Under the partnership, we will retain all investment management responsibilities for assets of eligible trusts, while Charles Schwab Bank trust officers perform day-to-day administrative duties for the trust (including the preparation and filing of federal and state taxes).

Also, the partnership gives our clients a cost-effective and flexible way to manage charitable giving through Schwab Charitable™ Trust Services. By setting up a charitable gift account we will be able to manage the trust assets using Schwab Institutional's trading platform while Schwab Charitable acts as trustee, handling every aspect of the trust's oversight and administration.

In addition to administrative and charitable trust services, Schwab Bank will offer comprehensive trust accounting and reporting including separation of principal and income and payments to beneficiaries and other parties.

Charles Schwab Bank is a federally

chartered thrift institution and an affiliate of Charles Schwab Corporation, a financial holding company. All bank products and services are offered through Charles Schwab Bank. Deposits are insured by the FDIC.

"It's not what you gather in life, but what you scatter in life that tells the kind of life you live and the kind of person you are."

– Helen Walton wife of WalMart founder, Sam Walton

# FINANCIAL FOCUS

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D. L. Blain & Co., LLC was named one of *Wealth Manager* magazine's Top Dogs for 2008. This annual list of the country's top wealth managers is based on average assets under management.

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## Inside the Company & In the News

It's been a busy quarter in the media for D. L. Blain & Co., LLC. David L. Blain was interviewed in *Southeastern Wealth Management Business* magazine. Mr. Blain was also quoted in various articles in *CFA Magazine*, *InvestmentNews* magazine and the New Bern *Sun Journal*. Stephen J. Sarver was profiled in the *Sun Journal*. D. L. Blain & Co., LLC was profiled in the September issue of the New Bern Chamber of Commerce's *For Members Only* newsletter.

D. L. Blain & Co., LLC was named one of *Wealth Manager* magazine's Top Dogs for 2008. *Wealth Manager* annually publishes its list of the top wealth managers in the country based on average assets under management per client. D. L. Blain & Co., LLC is one of only 12 North Carolina wealth managers to make the list and is the highest rated firm in Eastern North Carolina.

D. L. Blain & Co., LLC is pleased to announce that the firm has been named Best Financial Advisor in the New Bern Sun Journal's 2008 Readers Choice Award balloting. (The New Bern Sun Journal reaches over 39,500 readers in Eastern North Carolina.) Voters including clients, partners and friends in Eastern North Carolina selected the firm ahead of BB&T and Edward Jones, two of the leading financial services companies in the country.

Stephen J. Sarver was named Rotarian of the Year for 2007-2008 by the New Bern Breakfast Rotary Club. Mr. Sarver is being recognized for his work as co-chair of the Kicks for Kids Program which provides free shoes for underprivileged kids, service on the Rotary Ball Committee and other charitable and humanitarian activities throughout Craven County. He is past club secretary and is currently president-elect of the New Bern Breakfast Rotary Club.

David L. Blain, CFA, president and chief investment officer at D. L. Blain & Co., LLC, was recently appointed to the Finance Committee of the Board of Directors of the West Point Association of Graduates. In this capacity, Mr. Blain will help review and approve the Association's annual operating budget, oversee investment management of the \$200 million Association endowment, and monitor the Association's annual giving campaign.

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