

Case Study: All-Temp Heating and Air Conditioning

Steve is a successful business owner about to turn 50. He owns a heating and air conditioning company along with his partner, Greg, who is about 10 years younger.

Steve and Greg have invested time and money into their business. In fact, it is the single largest asset that each one owns. After several years of reinvesting profits back into the business, the business is now firmly on its feet and is generating substantial surplus cash flow. Steve and Greg would both like to begin to build greater wealth outside of the company.

Steve's brother, Phil, is also a business owner. Recently, Phil's partner died unexpectedly, and Phil now finds himself in business with his partner's widow. Phil resents having to consult with her about business decisions as a part owner. She has never previously been involved in the business and knows nothing about how to operate a business. Phil wishes that he could afford to buy her share of the business. Truth be told, she would prefer to have a pile of cash that she could use to support her and her college-age children, but Phil doesn't have that kind of money. Steve wants to be sure that he and Greg develop a succession plan for their business so neither one ever faces this problem.

Now that the business is beginning to generate a lot of additional cash flow, Steve is more concerned than ever about income taxes. The company has adopted a relatively easy-to-understand retirement plan for them and their employees, but Steve and Phil find that they cannot put very much into the plan because of the way the plan is structured. Steve wondered if there were better retirement plan options available that would enable him and Phil to put more pre-tax dollars away for retirement. Phil asked what other options may be available to reduce his income taxes next year.

Greg, being younger than Steve, still has middle school aged boys at home. His wife does not work outside their home, and he wants to make sure that she and the kids are well cared for if anything happens to him. He would love for at least one of the boys to be involved in the business some day, but wants that choice to be theirs. He wants them to go to college and have options for what they want to do with their life.

Steve and Greg both felt that they should be investing some of their money outside of the company. The problem was that neither one of them understood the stock market very well. It seemed every time they got a "tip" on a stock and invested, they ended up losing money. They didn't know how to go about building a diversified portfolio of market investments.

Don's Comments:

Working with an attorney who specializes in business succession planning, we have developed a plan that allows for the orderly transfer of the business in the event of something unforeseen involving one of the partners. Not only did we address the possibility of a death, but also the possibility of a permanent disability, a divorce or even a disagreement between the two partners. In addition to

providing for these possibilities, the succession plan also provides for the accumulation of dollars into a tax deferred account. This account can be accessed as a line of credit by the business, or someday used as a deferred compensation plan for the owners. I also feel great when we can address multiple concerns with one technique- in this case, succession planning and wealth accumulation for the owners.

We also designed a new retirement plan for the business- one the allowed for larger contributions by the two partners without fear of IRS scrutiny. Not only did we address the financial planning needs of the business, we also worked independently with each partner to address the unique personal concerns that each one had. In Greg's case this was college funding for his children. In Steve's case it was Long Term Care expenses for him and his wife. We were able to accomplish both of these goals in a tax efficient way that used tax savings to supplement the owner's savings toward each of these goals.

Lastly, I built diversified portfolios for each partner using both traditional market instruments as well as alternative investments that move independently of the market.

Helping people to consider and identify their concerns and goals, and then devise a plan to fund and address them, is the focus of my work. It would be my pleasure to work with you. Visit www.spectrumwealthgmt.com to get started.

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