

# STRIVE FOR ANTIFRAGILE, ACCEPT RESILIENT, AND DON'T RELY ON CROWD-FUNDING

by Aaron M. Puttroff

**W**hen I was a child, my father was injured on the job and could never work again beyond sporadic and low-paying temporary work. He got a settlement and a few bucks from the pension each month, but more was needed (made worse by a few unproductive decisions) to keep our house or pay for the necessities of life. I'll forever be grateful to the many people who helped. Further, I'm happy to pay it forward and provide support where possible in someone else's moment of need.

A sentiment I often hear is that people want to be efficient in managing their finances. On the surface, there is nothing wrong with efficiency. Waste not, want not, and so on. Most, if not all, aspects of modern society strive for a high degree of efficiency. Therefore, it's not surprising that we also apply this concept to our finances. The challenge is that highly efficient systems are not built with redundancy in mind and may be overwhelmed by random shocks to the system.

As Scotty said in Star Trek III, "The more they overthink the plumbing, the easier it is to stop up the drain."

Our personal finances can quickly take a turn when an unforeseen event takes our plan on a detour (assuming there is a plan). Unfortunately, we get grim reminders of this from the various crowd-funding pages we see on social media or in the news. **Observe, and you'll note that most of the time, money is being raised to help with a situation that's not uncommon or unpredictable. It's just that the victim probably didn't think it would ever happen to him or her, always to other people.** This isn't meant to be a criticism of people who are experiencing a crisis and are short of money. On the contrary, as mentioned earlier, I probably wouldn't be where I'm at without the timely charity and support of people in my life.

Nevertheless, here's where the paradox comes in. I hope you will be generous and contribute to that crowd-funding page you

scroll upon to help someone in your neighborhood or community. A timely act of kindness may make all the difference. I also hope that you will arrange your finances with the mindset that you never want to be dependent on the charity of others when the inevitable shock to your finances occurs. In other words, avoid having your finances be fragile. Rather, strive to have them be antifragile. Applying the logic of author Nassim Nicholas Taleb, this would make your finances stronger due to random events or shocks rather than weaker. And suppose it turns out that antifragile isn't possible to attain. In that case, hopefully, you'll at least land on being resilient, which means that your finances will be able to withstand or recover quickly from difficult conditions. Here are some thoughts on what may constitute being fragile or anti-fragile with respect to your finances.

## Examples of fragility in personal finance:

- Insufficient insurance for low-probability but high-consequence events

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- Belief that its more efficient or even possible to self-insure
- Long-term commitments relying on short-term and/or variable-rate debt
- Too much of savings/investments in retirement accounts or other vehicles that limit access prior to retirement
- High positive correlation in all personal money matters (Ex. I work for a well-known tech company, and most of my investments are stock in the same company)
- Expect high returns to make up for poor savings habits (I.e. low savings rate)

## Examples of antifragility (or at least resilience) in personal finance:

- Enough life insurance to replace any lost income because of premature death of income earner
- Disability insurance to replace lost income because of sickness or injury
- Umbrella policy pay for losing a lawsuit or avoiding a lawsuit altogether through a negotiated settlement
- Sufficient liquid savings to pay for an unexpected event **and** take advantage of opportunities
- Little to no consumer debt and/or variable rate debt

- Consistent saver with tempered expectations of investment returns

Remember, in the immortal words of Mike Tyson, “Everyone has a plan until they get punched in the mouth.” Take the time to evaluate your finances for critical vulnerabilities now. Everyone will face adversity at some point. Better to harden you finances before that event occurs.

### Sources:

Taleb, Nicholas Nassim. Antifragile, Things That Gain from Disorder, Random House, 2012, pp.5-23

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## Business Owner Newsletter

# HARD WORK DESERVES GOOD PLANNING

A major point of pride for successful business owners is how hard they worked to achieve their success. A common myth is that smaller, less complex businesses aren't cut out for Exit Planning or that it's too expensive. But as the backbone of the economy, smaller business owners deserve good planning, and planning may not be as expensive as they think.

### Protecting Your Pride

At its core, Exit Planning is about protecting something you're proud of and that supports you. Part of the dream of owning a business is building enough wealth to support yourself and the people you care about after you leave it.

For many, many business owners, this doesn't mean the business needs to be worth millions and millions of dollars.

Even if your business is small, even if your business doesn't appear on any of the stock exchanges, even if your business is only known locally, it is still deserving of the protection that an Exit Plan can provide.

### How to Afford Exit Planning

When we talk about Exit Planning, we often talk about how many advisors belong on an Advisor Team. Lawyers, CPAs (CAs), business brokers, and various other advisors can indeed be expensive.

However, the complexity of a business will often determine the size of the Advisor Team.

For example, if you're a mechanic who owns a small, successful body shop, you likely won't need the most expensive business valuations available. Your Business Continuity Plan may not be as complex as one for a multi-million-dollar tech company. Because the structure of the business isn't wildly complex, the cost to create an Exit Plan could be lower than you think.

It's often the case that smaller businesses operate with slimmer margins. In many cases, Exit Planning can help business owners be more efficient with the resources they have toward the goal of financial stability. This could help address initial hesitations about the cost of planning.

Much like starting a business, planning a business exit requires smart investments.

### What an Exit Plan Does

No matter what kind of business you're running, an Exit Plan pursues a common goal: your financial stability. How you define your financial stability, in terms of dollars, is likely as unique as your business itself.

While it's true that Exit Planning can include complex strategies and fancy professionals, it's not always the case. Some-

times, planning is more straightforward and requires advisors who "speak the language" of the business owners they work with.

What's important is that your advisors work toward helping to protect your financial future so you can then pursue additional goals of leaving your business when you want, for the money you want, and to the person/people you choose.

### All Business Owners Exit

Every single business owner will exit their business. But not every business owner will exit their business on their terms.

If you're a business owner who works hard, especially in a labor-intensive industry, protecting the business that you built is not only doable but also extremely important. You should be able to position yourself to reap the fruits of all of your hard labor, and an Exit Plan could help you do just that.

We strive to help business owners identify and prioritize their objectives with respect to their businesses, their employees, and their families. If you have questions on this topic, we can help with more information or a referral to another experienced professional.

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