

### Wealth Management & Entrepreneurs

## The impact of the Family Business on the Strategic Asset Allocation



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#### About LakeBridge

LakeBridge is an international corporate finance and financial advisory firm based in Switzerland.

It specializes in international corporate finance transactions and private solutions to entrepreneurs, family-owned companies and family offices.

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Entrepreneurs are major drivers of wealth creation and risk takers by nature.

The risky nature of this source of wealth, makes portfolio construction and asset allocation a matter of even higher importance for entrepreneurs than for any other type of investor.

First, because the business often represents the largest single asset in the total wealth of most entrepreneurs and entrepreneurial families. Second, and a consequence of the first, it carries a significant concentrated risk in a given sector or geographical region. Third, it is often illiquid, and illiquidity is an additional source of risk.

Yet, most entrepreneurs tend to treat the business as asset of its own, managed apart from the rest of the entrepreneur's or family's wealth. In this constellation the entrepreneur manages the business, the bank or asset manager manages the financial assets.

In compliance with regulatory requirements, banks and asset managers are compelled to get clients' sign-off on a « risk-profile » so that the client's portfolio be constructed and managed accordingly. What is wrong with it ?

From the asset manager's perspective, nothing. This is the widely-accepted industry standard, in line with the traditional Markowitz mean-variance optimization theory. It is the asset management industry's view, or more

precisely, the *financial* asset management view.

From the entrepreneur's or entrepreneurial family's perspective this approach to wealth management carries serious drawbacks.

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First, wealth is not about assets only. Wealth incorporates both assets and liabilities. Hence wealth management goes beyond managing assets and further beyond managing financial assets. Wealth management is about managing surplus – the difference between the economic value of assets and that of liabilities.

Second, taking only financial assets into account neglects what is often the single biggest asset of entrepreneurs and family business owners: the business. Let aside other non-financial assets such as real estate or minority stakes in other privately-owned companies.

Wealth management for entrepreneurs and family business owners is a multidisciplinary task:

#### **The entrepreneur's economic balance sheet**

It incorporates the ability to model the evolution of an

entrepreneur's or family's economic balance sheet - both assets and liabilities - over the lifetime.

#### **The value of the business**

It requires corporate finance skills - the ability to value illiquid assets such as the family business or minority stakes in privately-owned companies.

#### **The impact of illiquid assets**

It calls for the capacity to incorporate illiquid, non-financial assets such as the family company in the strategic asset allocation.

The Total Wealth approach often leads to a quite different strategic asset allocation of financial assets compared to the traditional approach. The concentrated equity risk of the family business leads in most cases to less risky portfolios of financial assets.

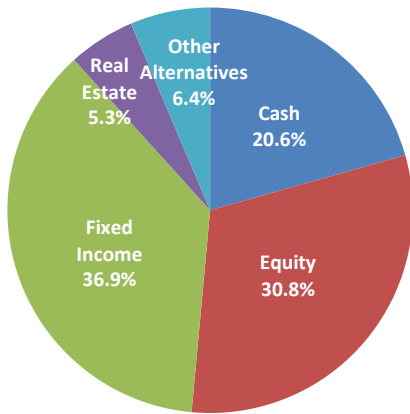
We've analysed clients' portfolios from a Total Wealth perspective. Exhibit 1 shows a concrete example of a client's portfolio before and after the adoption of the Total Wealth strategic asset allocation.

Entrepreneurs and families who adopt the Total Wealth approach in managing their assets are often surprised to find out that their traditional financial portfolios bear too much risk in light of their total wealth.

Neglecting the impact of the family business in the strategic asset allocation exposes entrepreneurs and family business owners to unnecessary investment risk.

Exhibit 1 - Select example - for illustration purpose only

Strategic Asset Allocation  
- Traditional -



Strategic Asset Allocation  
- Total Wealth Approach -

