CONGRATULATIONS,
You Sold Your Company.
DO THIS NEXT.

You did it! You sold your tech company. You now belong to a group of elite entrepreneurs who have captured the holy grail. Against formidable odds, you turned your idea into a viable startup, grew it into a major player disrupting your industry, and then exited (while amassing piles of cash). Before you move on to your next venture, it's a smart move to take a step back and develop a plan to preserve your wealth.

As a successful entrepreneur, you're in a unique situation. As such, there are specific steps you should take to ensure your family's financial well-being, and they center around capital preservation rather than exponential growth. For advice, we turned to **Anthony Glomski**, an author, public speaker and the founder of AG Asset Advisory, an SEC-registered investment advisory firm that helps successful tech entrepreneurs who are approaching a liquidity event make smart decisions about their money. Here are the five principles he shares with his clients—and they'll likely work for you, too.

1 Ignore what made you successful. Entrepreneurs like you are known for taking risks. It's an inherently risky thing to eschew a safe corporate job for a high-risk startup—some stats put the startup failure rate at 90 percent—and to put your savings on the line to grow your idea. But the trait that made you a successful entrepreneur isn't one that will help you preserve your wealth. "Even if you can afford to lose significant sums in pursuit of huge investment payoffs, it's simply not a smart move," says Glomski. "Doing so can erode your ability to make a major difference with your money."

When it comes to wealth preservation, Glomski says veteran investors like

Berkshire Hathaway's Warren Buffett and Vanguard's John Bogle advise investors to put their money into an index fund. "For the average investor, this can make sense for a lot of reasons, including tax and cost efficiency. But a tech entrepreneur often needs a unique approach," he says. "There is an immense benefit to working with fiduciaries who are free from bias regarding asset allocation and investment selection. They won't get compensated by choosing certain funds or products; their objective is to avoid conflicts of interest, identify your best interests and place them ahead of their own."

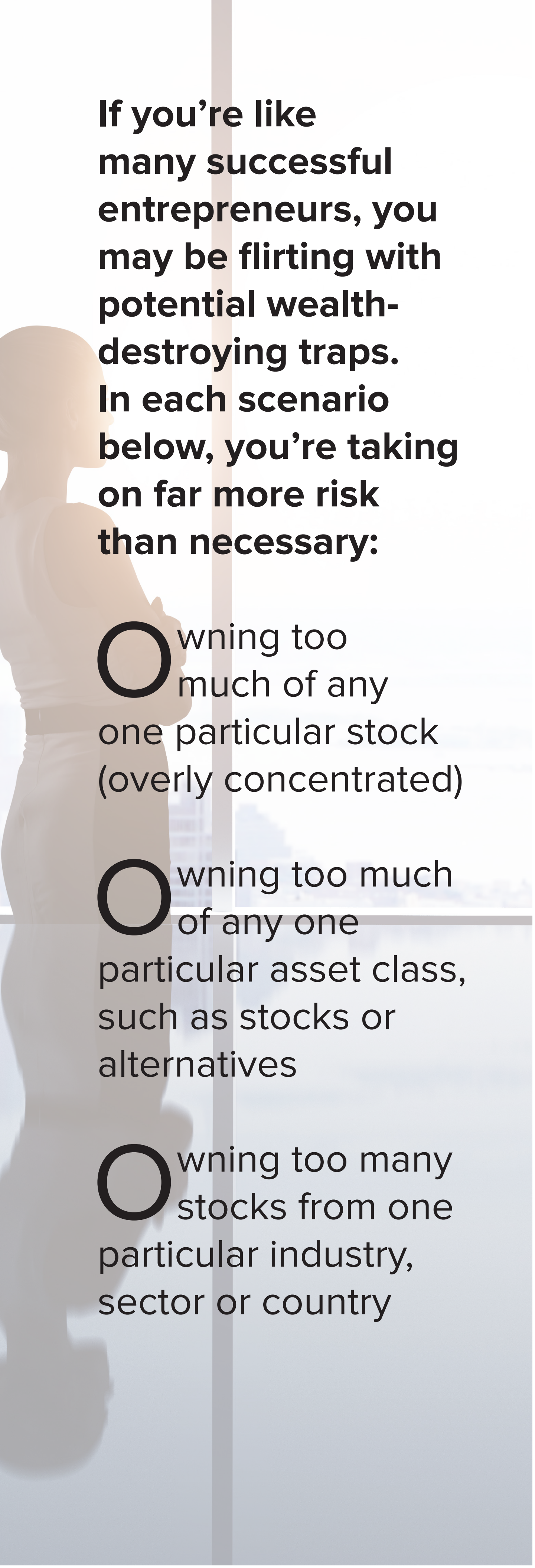
2 Take a household view. Seek expert advice and you'll probably be advised to avoid taking unnecessary risks and make sure you're not paying extra fees and taxes. Glomski says, though, that there's still room for outside investments, direct investments and other ventures you find interesting, as long as you start with a top-down view of your household. This includes real estate, interest in other companies, direct investments you've made and any other source of cash flow. "Within that framework," Glomski says, "Investable assets can be appropriately allocated and a portfolio tailored to your situation."

3 Understand different forms of risk. Fluctuations in your portfolio's value and actual realized losses are two key investment risks. The latter—when you sell assets for a price lower than you purchased them for—results from owning single stocks of companies that experience major financial setbacks (think Enron or Countrywide), but the risk can be managed. "While this type of risk has no place in our process, it may be present in your current household allocation, if, for example, your company was acquired by a publicly traded company for stock, or if you would face a tax ramification by selling your existing shares of stock," says Glomski. If this is true for you, you need a plan to manage your exposure. (Talk to an investment adviser if you're not sure how to manage your risk.)

Your liquidity event puts you in rarefied company. You don't need financial markets or alternative investment opportunities to help you make money. You've already done it through your business.

As for the first risk—fluctuations in your portfolio's value—you'll need to consider your risk tolerance. But you can still address the risk by allocating some of your assets to bonds. "Bond prices generally aren't as volatile as stock prices, and they often rise when stocks fall," says Glomski. "It's hard to forget the brutal bear market of 2007–09, when stocks lost more than 50 percent of their value. Few remember how well bonds performed during that same period. If you had been fully invested in stocks, the value of your portfolio would have fallen by 50 percent. But if you had allocated half of your portfolio to fixed income, you would have substantially reduced your losses, and maybe even eked out a gain."

When investing, it's also imperative to keep your emotions in check. "Often, individuals—not their portfolios—are the biggest source of investment risk," says Glomski. "Every instinct we have tells us to stay out of harm's way when we sense danger, leading us to time the market's cycles, even though this is impossible." With stocks, you need to stay invested. "Taking even a few days or weeks off can cause you to risk being



If you're like many successful entrepreneurs, you may be flirting with potential wealth-destroying traps. In each scenario below, you're taking on far more risk than necessary:

Owning too much of any one particular stock (overly concentrated)

Owning too much of any one particular asset class, such as stocks or alternatives

Owning too many stocks from one particular industry, sector or country

out of the market during periods when returns are well above average. We all know plenty of Nervous Nellies who bailed out of the market during the 2008–09 global financial crisis and missed out on the 300 percent recovery during the half decade that followed. As David Booth, founder of Dimensional Fund Advisors, once quipped: 'You've already paid for the risk, so it might be good to stick around for the expected return.'"

4 **Don't gamble. Invest.** Vanguard's John Bogle is famous for saying, "Don't look for the needle in the haystack. Just buy the haystack." But what if you prefer to own individual stocks? Probably not the best move. "When you purchase the stock of one or even several companies, you are essentially placing a bet—like a gambler does—that has two possible outcomes: lose a lot or make a lot," says Glomski. By contrast, when you buy "the whole market"—the hundreds of stocks that make up a particular asset class—you vastly narrow the range of outcomes. "This approach may not provide the same adrenaline rush as rolling the dice on a hot individual stock, but it certainly protects your downside while providing plenty of upside. Add in the drag on returns from trading costs, tax inefficiency and fees paid to managers to do the stock picking, and it's no wonder that active stock-pickers lag the indices that represent various asset classes." But what if you are inclined to own certain individual stocks? Glomski suggests carving out a portion of your total portfolio specifically for this purpose. "Determine the appropriate dollar amount to allocate to this strategy with the understanding of possible outcomes."

> **"While it's probably not in your DNA to take your foot off the gas pedal, capital preservation, not growth, is your primary concern in this new chapter of your life."**

5 **Control what you can.** You can't control the market, but you can control your level of risk and how you position your investment capital to take advantage of the market to compensate for the risk you're taking, says Glomski, who advises that you should also seek to control costs and taxes. "Control costs by minimizing portfolio expense ratios, trading costs, fund turnover and tax-related costs. Control taxes by using tax-sensitive and tax-optimized investments that keep trades to a minimum, and keep taxable gains low through advanced trading strategies. You are likely in a high tax bracket, so municipal bonds might be more heavily weighted within the fixed-income portion of your portfolio, while 'yield plays' such as bank loans and high-yield corporate debt may be de-emphasized. Entrepreneurs require specialized customization to their tax situation. With the tax code coming in at more than 77,000 pages long, there are moving parts and endless complexity."

Interested in learning more about these five capital preservation tenets? Pre-order a copy of Anthony Glomski's forthcoming book, *Liquidity and You*.

How Important is Diversification?

Financial science makes one thing very clear: If you want to own winning investments consistently, you can't just invest in one or two stocks, sectors or even broad asset classes. You need to own many of them at all times—regardless of how they perform in any single year.

This concept may be counterintuitive to someone who knows a business or industry very well. I actually agree: No one in the private market understands a business model better than a founder or an early-stage equity holder. However, in the public market (stocks), the world is radically different. I was recently introduced to a physician who owns several surgery centers. Through his knowledge and expertise in the medical field, he identified a stock that appeared to have tremendous upside and placed 50 percent of his portfolio in it. Later, that stock lost 70 percent of its value. Compare that to the business (private) that he owns and operates—the one that has created wealth and will dig him out of this financial hole. Clearly, different skill sets apply in the public market.

—Anthony Glomski