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RECESSION-PROOF YOUR CLIENTS

Jun 1, 2008 12:00 PM, By Mollie Neal

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Small-business owners are well aware of today's harsh economic realities. How could they not be? Some companies — especially those in real estate and construction — are already feeling the pinch of a slowing economy and rising energy and gas costs. Still, most entrepreneurs are optimistic about their ability to weather the storm.

That could be a dangerous attitude to take. Studies indicate that many small-business owners do not have a contingency plan for tough times. This is an area where financial advisors can help.

STASH SOME CASH

Most small-business owners can be characterized as "empire builders," says Brent Kessel, co-founder of Abacus Wealth Partners, and author of *It's Not About the Money*. "They are typically focused on building their business larger and larger for some kind of future legacy." Those who have been plowing all their money back into the business need to start thinking more like "savers," he says.

Patrick Astre, CFP and author of *It's Not Your Parents Retirement*, believes having an emergency fund is critical to weathering an economic downturn. He urges business owners to start socking away 10 percent of gross income into a ready liquid fund, such as a bond fund tied to the business, until there's at least six months in reserve for emergencies. Consider it another necessary — albeit painful — expense that may well save the business some day if it hits a wall.

To ensure liquidity, Paul Ahern, principal and senior vice president of WealthTrust-Arizona, typically structures laddered CDs or commercial paper for his small-business clients, and has these types of investments coming due every four, six, nine or 12 weeks so they always have cash in the portfolio.

TRIM THE FAT AND KEEP THE BLOOD FLOWING

Fortunately, small businesses are nimble, and minor improvements in efficiency can often have an immediate positive impact. Cost-cutting measures may include consolidating offices, redefining job functions or even dismissing under-performing employees. Outsourcing work to freelancers, virtual assistants and other professionals is an effective way to deflate bloated salary expenses, and shave benefit costs and taxes. But clients should beware of cutting revenue-generating employees and practices, such as sales and marketing.

Investing in technology and automation may cost some cash upfront, but if it's affordable, it's usually worth it in the long run because it can shorten production cycles, eradicate inefficiencies and create economies of scale. Plus, the cost of buying equipment typically decreases in a slowing economy.

THINK STRATEGICALLY AND CAPITALIZE ON OPPORTUNITIES

Now is also the time to think strategically and establish goals for the next three to five years. It's critical that actions taken during these tough times set the stage for the next phase, which is typically a growth period, says Carlos Lowenberg, founder and CEO of the Lowenberg Wealth Management Group, which specializes in financial planning for small-business owners.

While the world is deleveraging, Lowenberg believes it's actually an opportune time for those who are able to borrow money to grow their business. "It's a buyers market," he says, and "a good time for acquisitions." With interest rates near all-time lows, it's also prudent to renegotiate loans for those who have a proven track record and good relationships with their bankers.

On the personnel front, a sluggish economy is also an opportune time to snatch up highly skilled employees who are out of work, or insecure about their current employer's future. A great way to attract new talent, and retain and reward key employees, is to set up an alternative benefit program with discretionary contribution features.

IT'S PRIME TIME FOR PROSPECTING

Many small-business owners have a do-it-yourself attitude toward financial planning. However, as economic challenges escalate and they begin to question their financial security and readiness for retirement, they may be more open to professional guidance. That means it's also prime time to be prospecting for small-business-owner clients.

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