7 Investment Principles for Entrepreneurs

By Karl Stark & Bill Stewart; March 8, 2013

Most personal finance experts tell a fairly consistent story about the need to build a diversified investment portfolio focused on long-term growth. But that type of investment strategy doesn't necessarily apply to entrepreneurs and owners of private businesses, especially high-growth businesses.

We are a unique lot. Our concentrated investment in a risky but highly attractive company means that our overall investment portfolio is skewed differently than the average investor. One business owner once told us, "My business is my retirement strategy." This perspective underscores the importance of building a plan that's unique to your risk profile and your appetite for entrepreneurial opportunities.

Here are seven personal investment principles we have learned to keep in mind when your job is growing a business:

1. Build a "no touch" portfolio: When you invest in stocks, bonds, and mutual funds, put them out of reach by creating "no touch" portfolios in accounts that you will never access. This will reduce the temptation to dip into long-term investments to address a short-term need for a cash infusion if your business is struggling. You can create more protection by loading up your retirement accounts and your kids' education accounts. These are places where there is a huge financial penalty to accessing those funds, which will keep you honest.

2. Protect your assets: Structure your investments--and your company--so that creditors can't reach your money if the business runs into financial or legal peril. In addition to structuring your business appropriately, this also involves transferring assets to spouses and children where possible and investing within retirement accounts and real estate, which in some cases are out of reach.

3. Diversify away from your business: Seek investments in your portfolio that are counter cyclical to your industry and business cycle. Investing in commodities may be risky in general, but if your business is heavily linked to the broader economy or public equity markets, a counter cyclical asset such as commodities may be attractive.

4. Invest more conservatively outside your business: Most investment professionals recommend a heavy equity portfolio for younger professionals and a larger fixed-income portfolio for older individuals. Given that an entrepreneur's business may largely cover her "equity risk," she may be better off with a more conservative portfolio outside of her business.

5. Build a cash cushion for future entrepreneurial ventures: Most of us can't pass up a good deal when it comes along. That's why we became entrepreneurs in the first place. If you have the luxury of cash outflows from your business, put a sufficient amount aside so that you can keep some dry powder when new opportunities present themselves.

6. Make smart business investments: The best way to protect your personal finances is to ensure that your business has a sound, balanced approach to investing its capital. Our recent column on a growing business's investment strategy discussed this in some detail.

7. Build a great business model: Of course, the best personal investment strategy may be your business itself. After all, your business can be your retirement strategy if it's successful. Building your business should be what you do best. So focus your time and effort there and leave the investing to a professional.

We should note that although we advise private investors on investing in growth companies, we aren't investment advisers. We can share our own thoughts and experiences, but for more targeted advice you should seek a professional investment adviser.

http://www.inc.com/karl-and-bill/7-investment-principles-for-entrepreneurs.html