

Perspectives - On Business

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Tough Love Rings True

... when it comes to family business matters.

One of the most frequent temptations inside a family business is to bend the rules with family members. While this may be a mistake from an emotional standpoint, it can be a disaster from a financial one.

A deal that would be enforced with outside business associates should be honored the same way with kin. All too often sentimentality creeps in and forgiveness or permissiveness enters the picture. When it comes to financial matters, once the IRS gets involved, forgiveness does not come cheap inside a family business.

The duplicity of roles in family businesses can create either a richness - or a rift. The healthiest families cultivate a balancing act between kindness and prudent business practices. Often this need to juggle is suddenly thrust upon the well-intentioned widow of the founder, whose care and concern for family may override her business judgment and decision making experience.

What harm can there be in a mother, father, uncle or sibling overlooking late payments or forgiving indebtedness and promises to pay? Aside from creating weak management practices, and establishing poor precedents, there are potentially unhappy surprises (read taxes) and consequences.

All too often, the one granting forgiveness - whether implicit or explicit -- calculates the ability to withstand the loss on the surface value of the forgone installment or payment. They decide that the golden child really needs the money right now, and, they reason that they can afford the loss of income. Surely junior will make it up later...however, even if he doesn't, what does it matter when he is going to receive everything when the grantor passes on? That's alright dear, you can use it for little Sammie's tuition...

The problem is, the person granting forgiveness just cast themselves as the Grantor - not just of a favor, but of a Gift. Still not fully aware of the 'magnitude' of the error, it is repeated, and subsequently the price tag multiplies quickly!

Funny thing about gifts; they have a nasty habit of attracting attention from IRS agents, who just love to find places to collect gift tax. Their prime target is - you guessed it - none other than family businesses.

The need to be self-reliant and independent runs deep among family business members. But added to that is the tendency toward being magnanimous after so many years of toil, tension and heartache. Don't let your generosity leave a legacy eaten away by unforeseen taxes and penalties. Consult with your advisors. Be generous - but not to a fault!

May we offer these "Words to the Wise": Enforce your agreements with family the same as if they had been made with third parties. Educate your spouses and other survivors about the need to keep their advisors informed. Further, talk to them about common sense and false security. Your guidance is invaluable. Separating family from business is no job for the unprepared.

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Future Finances' Market Update

By Max Larsen

Monday, March 3, 2003

The stock market meandered about this week while the UN and Iraq continued its high-stakes chess match. Next move: Will Iraq really begin to destroy its Al Samoud 2 missiles on Saturday? Unsurprisingly, Iraq is hedging by saying it agrees to destroy the missiles 'in principal.' Meanwhile, the U.S., Britain and Spain spent the week sending envoys to Angola, Guinea, Cameroon, Pakistan, Mexico and Chile trying to amass the nine Security Council votes needed to pass the second UN resolution.

As investors, we really need to assume there will be definitive action within the next two weeks. Whether that action is implemented by military means or by continued inspections probably doesn't matter. The stock market doesn't need a war to rally. It only needs the uncertainty to be significantly reduced. When that happens, oil prices will drop and everyone can get back to doing business. If oil prices don't drop enough, the U.S. will need to tap into the Strategic Petroleum Reserve, which contains plenty of oil.

The surprising news is the economic data looks a lot better than one would expect given the circumstances (Q4 GDP, durable goods orders, Chicago PMI and existing home sales all beat expectations). Sure, consumer confidence dropped in February, but that shouldn't be surprising when everyone is getting color-coded terror alerts and duct tape/gas mask stories. What is surprising, despite the significant drop in confidence; consumers didn't jump into the nearest bunker. They continued to chug along. In fact, many of the retailers continue to beat earnings expectations (several announced earnings early in the week).

Conclusion

The Iraq situation is coming to a head. We'll know this week whether or not Iraq will begin destroying its missiles. If Iraq continues to stall, the United States, Britain, and Spain will likely pick up the 9 votes needed to invade. If Iraq unconditionally begins destroying the missiles, then the second UN resolution will probably fail to pass, but that would still remove some of the uncertainty.

As far as the market is concerned, it's hanging in there. Sellers appear to have exhausted themselves, and that is paving the way for a very impressive rally once volume returns. All we need is the uncertainty cloud to dissipate, which should happen soon.

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