THE WELL-PREPARED
BUSINESS OWNER

PROTECTING PERSONAL WEALTH

INVESTMENT PRODUCTS: • NOT FDIC INSURED • NO BANK GUARANTEE • MAY LOSE VALUE
Keep the business, but take some money off the table
WHY YOU SHOULD TAKE MONEY OFF THE TABLE

Great fortunes have been created by visionaries who seize unique opportunities and work single-mindedly to realize their dreams. Concentration is such an effective engine of wealth creation, it helped drive the success of the top 10 on the Forbes list of world billionaires in 2014. In the United States, the top 10 of the Forbes 400 made their fortunes through concentration. Many successful executives have also generated great wealth through concentration.

The natural impulse is to leave well enough alone. After all, if concentration’s rewards have been so enormous, why not stay concentrated?

Often, this feeling is more compelling for business owners who are deeply attached to their companies. Some may be concerned that “diversification” translates directly into “selling the business.” It does not. While you could sell all or part of your business, you might also consider taking some capital out of your business or using leverage to create a complementary portfolio. Other business owners feel comfortable keeping personal wealth concentrated in their businesses, thinking they understand all the risks the businesses face. However, they cannot.

NO ONE IS IMMUNE

As difficult as it is to build a company and amass wealth, it is just as hard to keep fortunes aloft. Simple facts demonstrate the hard reality that concentration may ultimately destroy wealth. Since the early 1980s, 40% of all companies experienced a severe loss and never recovered, with higher loss rates in Technology, Biotech and Consumer Discretionary. Through analysis that covered more than three decades, a J.P. Morgan study found:

STOCKS WITH CONCENTRATED HOLDERS WHO WOULD HAVE BENEFITED FROM DIVERSIFICATION

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage of Stocks</th>
<th>Sector</th>
<th>Percentage of Stocks</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Sectors</td>
<td>74%</td>
<td>Healthcare</td>
<td>72%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>74%</td>
<td>Financials</td>
<td>63%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>58%</td>
<td>Information Technology</td>
<td>82%</td>
</tr>
<tr>
<td>Energy</td>
<td>81%</td>
<td>Telecommunication Services</td>
<td>74%</td>
</tr>
<tr>
<td>Materials</td>
<td>75%</td>
<td>Utilities</td>
<td>87%</td>
</tr>
<tr>
<td>Industrials</td>
<td>75%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Source: J.P. Morgan Private Bank analysis based on publicly available information and media reports, 1980-2014. In the table above, we show the percentage of stocks in each sector that: suffered a catastrophic loss; or generated negative absolute lifetime returns; or generated negative excess lifetime returns vs. the Russell 3000; or experienced high volatility such that the optimal portfolio process chose to own no more than 20% in the stock. Note: Optimal portfolio process described as computing the combination of each concentrated stock position and the Russell 3000 that would have delivered the best risk-adjusted return.
WHY YOU SHOULD TAKE MONEY OFF THE TABLE

THE UNEXPECTED
Even the most established companies experience unexpected, protracted declines
Select large-cap companies with substantial long-term price decreases since 2006

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Cumulative return since 2006</th>
<th>Annualized return since 2006</th>
<th>Cumulative performance vs. MSCI World</th>
<th>Annualized performance vs. MSCI World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lloyd’s Banking Group (United Kingdom)</td>
<td>-68.7%</td>
<td>-8.5%</td>
<td>-176.3%</td>
<td>-14.3%</td>
</tr>
<tr>
<td>ING Groep (Netherlands)</td>
<td>-42.2%</td>
<td>-4.1%</td>
<td>-149.8%</td>
<td>-9.9%</td>
</tr>
<tr>
<td>Telecom Italia (Italy)</td>
<td>-69.7%</td>
<td>-8.8%</td>
<td>-177.3%</td>
<td>-14.6%</td>
</tr>
<tr>
<td>Peugeot (France)</td>
<td>-36.7%</td>
<td>-3.5%</td>
<td>-144.3%</td>
<td>-9.2%</td>
</tr>
<tr>
<td>Esprit Holdings (Hong Kong)</td>
<td>-95.8%</td>
<td>-21.7%</td>
<td>-203.4%</td>
<td>-27.5%</td>
</tr>
<tr>
<td>Shun Tak Holdings (Hong Kong)</td>
<td>-51.2%</td>
<td>-5.4%</td>
<td>-158.8%</td>
<td>-11.1%</td>
</tr>
<tr>
<td>Tokyo Electric Power (Japan)</td>
<td>-74.5%</td>
<td>-10.0%</td>
<td>-182.1%</td>
<td>-15.8%</td>
</tr>
<tr>
<td>Dell Inc. (United States)</td>
<td>-52.2%</td>
<td>-9.0%</td>
<td>-159.8%</td>
<td>-14.8%</td>
</tr>
<tr>
<td>MSCI World</td>
<td>107.6%</td>
<td>5.8%</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

2 Sources: Bloomberg, FactSet. Data as of 12/31/18. Declines represent total return in investment. Peaks serve as reference points for price declines and may not reflect stocks’ all-time highs. Past performance is no guarantee of future results. It is not possible to invest directly in an index.
SIGNIFICANT DROPS IN INDIVIDUAL STOCKS CAN BE LONG-TERM AND UNPREDICTABLE*

- Stocks that decline over extended periods may never recover to their peak levels
- Our selected companies have credit ratings equivalent to S&P ratings of AAA to BBB- at the time of their highest prices and represent a variety of sectors
- “Blue chip” names are not immune to long periods of relative underperformance

* The views and strategies described herein may not be suitable for all investors. This material is for informational purposes only and does not contain sufficient information to support an investment decision. Please read important information at the end of the presentation. Past performance is not indicative of future results. It is not possible to invest directly in an index. MSCI ACWI (Morgan Stanley Capital International, All Country World Index) is a market capitalization weighted index intended to provide a broad measure of equity-market performance throughout the world.
To reduce risk, it is necessary to avoid a portfolio whose securities are all highly correlated with each other. One hundred securities whose returns rise and fall in near unison afford little protection other than the uncertain return of a single security.

—Harry M. Markowitz
Nobel Laureate and the Father of Modern Portfolio Theory

IDENTIFY THE RISKS
No matter how well you know your industry and your company, no one is impervious to event risk and industry changes. The factors outside management control are formidable and have only grown in complexity over time. The most important consideration from this study is that exogenous forces may overwhelm the things that can be controlled.

A deeper dive into catastrophic stock price loss reveals important realities of global business dynamics. J.P. Morgan analyzed large-cap (and the upper end of mid-cap companies) in 2014 to do some forensics on catastrophic losses. Michael Cembalest, Chairman of Market and Investment Strategy for J.P. Morgan Asset Management, identified that while there are instances of companies experiencing declines due to leveraged overexpansion, management misreading rapidly changing industry dynamics and competitive factors, and mismanagement of a large acquisition, many companies suffered due to factors largely outside management control.
A partial list of exogenous factors that can put companies at risk:

- Domestic or foreign government policy, tariff, regulation or trade changes
- Foreign competitors
- Changes in offshore demand
- Intellectual property infringement/product litigation
- Accounting problems in acquired entities
- Fraud by non-executive employees
- Technological innovation
- Competitive product development
- Product obsolescence
- Structural market shifts
- Consolidation
- Unconstrained expansion by competitors
- Commodity price risks

**MITIGATE THE RISKS**

Advisors will tell you that the answer to being overly concentrated is diversification. But what does “diversification” actually mean?

First of all, diversification does not necessarily mean selling your business. A whole or partial sale may be part of a diversification strategy, but it does not have to be.

All business owners are at their unique points in the typical transition from creating wealth to preserving wealth. Each family has its own optimal balance between concentration and diversification.

Whatever your balance, if you want to increase the odds of staying wealthy, take enough money out of the business to create a complementary portfolio.
A NATURAL PROGRESSION

Once a business owner has amassed a sizable fortune, there is typically a shift to wealth preservation. Whether individuals shift, and how far, depends entirely on their priorities.

### FROM WEALTH CREATION

- Big stakes + big leverage
- Family management
- Focus on personal wealth
- Maximize return

### TO WEALTH PRESERVATION

- Diversified assets + prudent leverage + controlled spending
- Professional management
- Focus on transferring wealth to heirs or charitable beneficiaries
- Minimize risk
CREATING A COMPLEMENTARY PORTFOLIO

Business owners who keep their businesses are committing themselves to a concentrated position, which makes them more vulnerable than if their investments were fully diversified. However, this risk can be partially mitigated by a complementary portfolio created with assets outside the business.

A complementary portfolio can also serve as a counterbalance to the risks the company may face, helping preserve wealth when the business or economic climate becomes unfavorable.

The goal is to keep the business while preserving and even growing your wealth, independent of your company’s performance.

USE AN INVESTING STRATEGY THAT TAKES YOUR BUSINESS INTO ACCOUNT

Standard investing approaches typically advise business owners to view their portfolios in isolation and diversify, with little to no recognition of their private businesses.

J.P. Morgan’s portfolio construction for business owners takes into account all of your holdings, including your core asset: your company.

We recognize that the individual private companies representing the bulk of private business owners’ capital are already subject to the economic and financial circumstances of global growth and fluctuating world financial markets.

For example, because business owners in a mature industry are already invested in their local economies through their companies, their complementary portfolios need investments that cover the two extremes: recessionary and expansionary markets. The key to this “barbell” approach is an investment strategy that provides both:

• **Downside protection**—Less-risky investments to preserve capital during recessionary markets

• **Upside participation**—High-growth investments to take advantage of expansionary markets

How a private business owner allocates assets between these two extremes depends entirely on that person’s stage of life and appetite for risk.
CREATING A COMPLEMENTARY PORTFOLIO

Potential high-growth, upside participation investments include:
• Mid- and small-cap equity
• Emerging markets equity
• Private credit strategies
• Extended public market credit

Historically, protection investments have come from:*:
• Oil, gold and other commodities
• Macro managers
• Inflation-indexed fixed income
• Stable return/market-neutral strategies

*Work closely with your advisors when you explore these options.

WHAT IS YOUR OPTIMAL BALANCE?
Consider both sides of the “ledger”: On one side are your needs and goals; on the other, your company.

For each family, there is an “optimal” balance between concentration and diversification. That balance, in turn, leads to an estimate of how much a family should allocate between a concentrated risk/return pool and one that is focused on diversified risks and returns.
As a business owner’s goals shift from wealth accumulation to wealth preservation, it may be wiser to have greater protection on the downside rather than the upside, given the time it could take for a person’s wealth to recover from a negative event. A conservative capital preservation portfolio for a private investor could be allocated 75% downside-adverse and 25% upside-participation investments.

To make a portfolio truly complementary, we advise deploying assets outside the business so that they have the potential to be a productive part of the portfolio.

UNDERSTAND HOW EACH BUSINESS IS UNIQUE

To select specific investments for a business owner’s complementary portfolio, it is necessary to conduct a thorough and thoughtful inquiry into the nature of the risks inherent in the owner’s particular business. Investments should not duplicate risk, but rather show diversification to the business owner’s total wealth.

The first step is to look at the factors that drive returns for the particular business, identifying risk exposures.

• **Public companies**—If the owner’s business is a public company, this exercise is fairly straightforward, as a great deal of information is typically available about that business, as well as its competitors.

• **Private companies**—Properly evaluating a private company can be a challenge. One has to find proxies, have a deep understanding of the business’s fundamentals, and evaluate the essential risks and rewards of the company in question. Deep due diligence is critical.

Location also matters. You should carefully consider the areas your business serves. For example, a Chinese business owner may already have sufficient exposure to U.S. markets if goods are exported to the United States. In a similar vein, Latin American business owners do not necessarily need more commodities in their portfolios, as the region in which their companies operate is already commodity dependent.
Only once the company’s drivers and exposures are properly evaluated can an intelligent complementary portfolio be constructed. Let’s look at two examples that demonstrate these principles.

**CONCENTRATED IN HAWAIIAN REAL ESTATE**

**Key drivers:** Asian tourism, Asian wealth, and sensitivity to oil prices

**Note:** When energy prices rise, the tourism industry is negatively impacted, and the cost of doing business in Hawaii also rises

**Elements to consider when composing a complementary portfolio:**

- Modest exposure to Asian markets
- Have energy commodity exposure to partially offset the negative effect of high oil prices on the real estate business

**CONCENTRATED IN AUTO DEALERSHIPS**

**Key drivers:** Auto dealerships are highly correlated to the economy of the country in which they are situated and to the consumer

**Elements to consider when composing a complementary portfolio:**

- Reduce holdings of large-cap growth stock that has significant consumer exposure
- Call for a possible wholesale reduction in equities, as the stock market in general is a proxy for the economy

**IT’S AN ONGOING PROCESS**

Regularly check the allocation and investments of a complementary portfolio, as the world and individual businesses are constantly in flux.

The weight you give to upside and downside protection will shift as your personal priorities change.
RECOGNIZING AND PLANNING FOR BUSINESS RISK

What shape is your business in and how can you make the most of it?

Entrepreneurs are often attracted to the high margins and investment returns that owning a private company can provide—though they may not always fully consider the risks their businesses face. To analyze a private business as an investment, it is wise to assess how internally concentrated the business might be and what other inherent risks it might contain.

INTERNAL CONCENTRATION

What is “internal concentration,” and how do we assess it in a particular company? Some simple examples demonstrate the concept:

Example 1: Real estate

Three owners have real estate holding companies, but the businesses are concentrated to very different degrees.

<table>
<thead>
<tr>
<th>LOW</th>
<th>CONCENTRATION RISK</th>
<th>HIGH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner 1</td>
<td>Properties are a mix of residential, commercial and retail, and are located in major urban, suburban and industrial centers around the world</td>
<td>Owner 2</td>
</tr>
<tr>
<td>Owner 3</td>
<td>All property is commercial and located in midtown Manhattan, New York</td>
<td></td>
</tr>
</tbody>
</table>
Example 2: Manufacturing
The risks inherent in manufacturing businesses can be assessed by examining a company’s degree of diversification in a number of sub-categories:

- **Customer base**—Do you have one or two customers who account for the bulk of your sales, or is your customer base diversified?
- **Suppliers**—Are you dependent on a limited number of suppliers?
- **Geography**—Do you operate from a single location or multiple locations?
- **Labor**—How broad is the labor pool from which you can hire?
- **Commodities**—Is your business dependent on a particular commodity?

Example 3: Capitalization requirements
It is helpful to assess the level of the capital a business requires.

<table>
<thead>
<tr>
<th>HIGH</th>
<th>LOW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Plants</td>
<td>Services</td>
</tr>
<tr>
<td>Machinery</td>
<td>Distribution</td>
</tr>
<tr>
<td>Other</td>
<td>Sales force</td>
</tr>
</tbody>
</table>

As low-capital businesses have fewer barriers to entry, they are more vulnerable to competition than capital-intensive businesses may be.

Meanwhile, high-capital businesses may be vulnerable to high or volatile interest rates.
KNOWING—AND DEALING WITH—A BUSINESS’S INHERENT RISKS
Two examples demonstrate the need to assess and address internal concentration risks in a timely manner:

Example 1: Capital-intensive business

Profile
• Flexible packaging company
• Fourth-generation management
• Successful business
• Globally recognized customers
• Fourth-generation beneficiaries included 37 family members
• Five family members worked in the business
• All family member beneficiaries received sizable distributions from the business on an annual basis

History
The business was stagnating because next generations were living on its profits rather than reinvesting in the company.

Compared to its strategic competitors, the business should have grown five times its size over the previous decade. Instead of retaining earnings, acquiring competitors, growing and diversifying, the business was distributing its profits to a burgeoning class of shareholders: family members who became more numerous with each subsequent generation.

Because the business failed to expand plants and institute backup capacity in case of natural disasters, it was in danger of losing blue chip customers, who increasingly demanded this assurance.

Meanwhile, the business was facing stiffer competition every year. Attractive margins had led private equity firms to acquire smaller firms in the industry and roll them up. As a result, the family business had several new significant competitors.

Choices
The family ostensibly had three options:
1. Take significantly smaller distributions so they could reinvest profits in the business in the hope that their company could outpace the growing competition
2. Sell the business to one of its strategic competitors or to a private equity firm that could afford to invest significant capital to keep the business on top
3. Continue to drain the business of its profits until it was no longer a viable company
Analysis
Too many family members were unwilling to forego distributions so that the business might reinvest in itself. Moreover, given the competitive landscape, waiting much longer to sell could impair value; the industry was consolidating so rapidly, the family could soon be unable to pit potential buyers against each other.

Conclusion
Business returns no longer justified the risk of remaining concentrated, and time was of the essence. The family’s best choice was to sell.

Example 2: Low-capital business

Profile
• Sales and marketing company
• Connected customers with manufactured products
• Knowledge-center intermediary

History
The owner had resisted the management-succession and wealth-transfer planning his executives and advisors had been requesting for 15 years.

At 76 years old, he had been forced to leave the business due to ill health. His two adult children were uninterested in entering the business. The owner had effectively been an absentee landlord for two years.

The members of the firm’s management team realized they could walk across the street together, set up shop and compete effectively.

There were no legal or financial impediments to this action: no employment contracts, non-compete agreements or retention bonuses.

Analysis
This owner had no choice.

Conclusion
He sold the business for less than half of its value and had to finance the deal himself with a seller note. He was fortunate to have received that much. Management already saw the firm as theirs, and felt the owner already had drawn several years’ severance.

WHEN IS RISK ACCEPTABLE?
Every company has some level of internal concentration risk. Many are still sound investments worth keeping.

A business’s internal concentration risk is acceptable when you not only fully appreciate your business’s risk and volatility, but also have returns that exceed this risk.

Case Studies:
The scenarios on the following pages illustrate both cautionary and inspiring ways business owners confront a variety of risks.
### CASE STUDIES

**Refusing to plan for the future leaves a business and family vulnerable**

<table>
<thead>
<tr>
<th>BUSINESS</th>
<th>Wholly owned, large, successful machine manufacturing company based in Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESTIMATED VALUE</td>
<td>€350 million</td>
</tr>
<tr>
<td>ANNUAL PROFITS</td>
<td>€50 million</td>
</tr>
<tr>
<td>OWNER PROFILE</td>
<td>Klaus Abelard Schmidt is 68 years old and owns 100% of the business. However, he is unwilling to discuss business succession or sale for several reasons: He has no interests outside running the company; his grown children are not involved in the business; he does not want to relinquish control; and annual profits far exceed his family’s spending needs.</td>
</tr>
<tr>
<td>OPTIONS</td>
<td>Ultimately, this business will be sold; the only question is when and how. There will be either:</td>
</tr>
<tr>
<td> </td>
<td>• A controlled sale—while the owner is healthy and an orderly transition will guarantee a higher price</td>
</tr>
<tr>
<td> </td>
<td>• A forced sale—when the owner becomes too ill to run the company or after the owner’s death</td>
</tr>
<tr>
<td>PORTFOLIO</td>
<td>Because Herr Schmidt has not considered the future, he has not used current income to create a complementary portfolio that might generate returns sufficient to:</td>
</tr>
<tr>
<td> </td>
<td>• Support his wife, children and grandchildren when he is no longer able to run the business</td>
</tr>
<tr>
<td> </td>
<td>• Pay the inheritance taxes that will be due on his estate upon his death</td>
</tr>
<tr>
<td>CONCLUSION</td>
<td>Herr Schmidt’s family is extremely comfortable, and his business is thriving. However, he has taken no measures to help ensure that they remain so. Business returns in the future won’t likely justify holding on to the company. Given the situation, the family will inevitably face a situation where they will need to rush to sell the business.</td>
</tr>
</tbody>
</table>
### Engaged in the business, but invested in the future

<table>
<thead>
<tr>
<th><strong>BUSINESS</strong></th>
<th>Highly successful home textiles manufacturer based in the United States</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ESTIMATED VALUE</strong></td>
<td>US$40 million</td>
</tr>
<tr>
<td><strong>ANNUAL PROFITS</strong></td>
<td>US$7 million</td>
</tr>
<tr>
<td><strong>OWNER PROFILE</strong></td>
<td>At 45 years old, Mei Qi Tan is married, with two teenage children.</td>
</tr>
<tr>
<td><strong>OPTIONS</strong></td>
<td>Recognising that her industry can be fickle and, therefore, her business had inherent risk, Ms. Tan took on a private equity partner that had deep experience in manufacturing in China and investments in other retail companies. She remains deeply engaged in running her company. However, she has handed over the business administration to the private equity firm, with the goal of reducing costs and tripling sales.</td>
</tr>
<tr>
<td><strong>PORTFOLIO</strong></td>
<td>With funds from the partial buyout, Ms. Tan had J.P. Morgan create a complementary portfolio, which is being invested according to her tolerance for risk. She and her husband also collect fine art.</td>
</tr>
<tr>
<td><strong>TRUSTS</strong></td>
<td>Ms. Tan has put some funds in trust for her two children.</td>
</tr>
<tr>
<td><strong>CHARITABLE TRUST</strong></td>
<td>Ms. Tan and her husband used some of the “partial sale” funds to create a charitable trust dedicated to helping aspiring artists and introducing visual arts to underprivileged youths.</td>
</tr>
<tr>
<td><strong>CONCLUSION</strong></td>
<td>As neither of the couple’s two children is interested in the family business, Ms. Tan plans on eventually selling the rest of her stake in the company to the private equity firm, retaining a consulting role for a period of time. Ms. Tan’s key employees received stock appreciation rights to reward their loyalty and to align their interests with hers.</td>
</tr>
</tbody>
</table>
Two corporate executives are surprised by economic hard times

<table>
<thead>
<tr>
<th>PROFILE 1</th>
<th>João Filipe Antunes is the founder and CEO of a publicly traded company in Brazil.</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS</td>
<td>R$2 billion in stock; three homes</td>
</tr>
<tr>
<td>OPTIONS</td>
<td>Mr. Antunes realized that his wealth was tied to the fate of one company. As a result, he sold some shares and used the proceeds, R$75 million, to create an investment portfolio. The rest of his assets remained in company stock because he wanted to show faith in his business. He was also reassured by the fact that his company had a number of banner years in a row.</td>
</tr>
<tr>
<td>CONCLUSION</td>
<td>Because Mr. Antunes was such a visible and emotionally invested stakeholder in his company, he could not bring himself to create a larger plan for diversifying his holdings over time. Then the market for his product was rocked by recalls and product defect claims. The company’s stock price dropped from a peak of R$100 a share to R$2.</td>
</tr>
<tr>
<td>FUTURE</td>
<td>Mr. Antunes’ net worth shrank dramatically. There is considerable debt on his planes and houses. His diminished fortune consists of what remains of the company stock and his investment portfolio. He is rebuilding his fortune.</td>
</tr>
</tbody>
</table>
Two corporate executives are surprised by economic hard times

PROFILE 2

Renata Thais Carvalho is a senior executive at a publicly traded company in Brazil.

ASSETS

R$30 million in stock; real estate investments

OPTIONS

Ms. Carvalho not only had all her wealth tied to one company, she was also highly leveraged, having borrowed extensively against her stock to invest in real estate and hedge funds.

CONCLUSION

Ms. Carvalho thought she had diversified her portfolio because she had invested in both commercial and residential real estate. But these investments are highly illiquid. When the stock market plummeted, so did her real estate’s valuations. She was forced to sell her R$10 million home for less than her mortgage, and the remaining loans were placed in the workout department of her bank.

FUTURE

Ms. Carvalho’s net worth and options for accessing liquidity are significantly diminished.
Zachary Robert Brown was a 55-year-old senior executive at a private U.K.-based company that went through an initial public offering. £90 million worth of founder’s stock represents 50% of his total net worth. Concerned about having so much of his wealth tied directly to the company’s performance, Mr. Brown wanted to liquidate about 30% of his company stock concentration, worth about £27 million. He did this by instituting a program to sell his company stock regularly and increase his allocation to a diversified portfolio.

He also used equity collars to hedge his remaining company stock concentration, worth about £63 million. While the equity collars capped the upside potential for the stock, they also placed a floor on downside risk. When the stock rose in value, Mr. Brown gradually sold shares and increased the floor on the equity collars to capture more upside growth.

This strategy was initially buoyed by strong markets and a growing stock price for the company’s shares. Mr. Brown turned his £63 million of stock into approximately £100 million before the stock price for the shares pulled back significantly. By that point, he already had taken much of his concentration off the table.

Mr. Brown might have protected even more of his wealth but chose to hold a significant position in his company because he believed in its prospects for growth. The company’s plummeting value would have had a much more severe effect on Mr. Brown’s wealth if he had not implemented a disciplined diversification strategy.
# TAKE CHARGE OF YOUR FUTURE

## SELF-ASSESSMENT

<table>
<thead>
<tr>
<th></th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Have you thought about diversifying risks away from your business?</td>
</tr>
<tr>
<td>02</td>
<td>Do you hope to sell all or a portion of your company, or do you wish to pass the company on to your family?</td>
</tr>
<tr>
<td>03</td>
<td>How much control of your company do you want or need to retain, and for how long?</td>
</tr>
<tr>
<td>04</td>
<td>What role does your family play in the business, and are some members more involved than others?</td>
</tr>
<tr>
<td>05</td>
<td>How much liquidity do you want for family members to be able to pursue other goals?</td>
</tr>
<tr>
<td>06</td>
<td>Do you have a passion (hobby, charity, etc.) that requires funding?</td>
</tr>
<tr>
<td>07</td>
<td>Do you have enough liquidity to take advantage of the next opportunity when it presents itself?</td>
</tr>
<tr>
<td>08</td>
<td>What are your personal spending needs, now and for the rest of your life?</td>
</tr>
</tbody>
</table>
KEY LESSONS

You have options. There are a number of ways business owners can diversify their portfolios:

• Sell the company outright
• Go public
• Borrow to generate liquidity for a dividend distribution (recapitalization)
• Bring in a private equity partner
• Sell a portion of the company to employees (ESOP)
• Utilize a complementary portfolio to minimize risk
ACTION PLAN

While each business and owner is unique, certain patterns and truths are universal. During the more than 200 years J.P. Morgan has been advising wealthy families around the world, we have had the privilege of assisting business owners in every phase of their operations and through all market conditions.

At whatever stage you may be in the shift from wealth generation to wealth preservation, and whatever your hopes for your business, fortune and family, it would be our privilege to share the benefit of our experience with you.

DETERMINE FAMILY AND BUSINESS NEEDS
DECIDE TO KEEP OR SELL THE BUSINESS (in whole or in part)
DETERMINE TIMING (of sale or succession)
IMPLEMENT PLAN

TAKE CHARGE OF YOUR FUTURE
Key Risks
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