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SMALL BUSINESS

Small businesses shouldn't put all eggs in one basket

Entrepreneurs should never put all their financial resources into their business, advisors warn.

BY JOYCE M. ROSENBERG

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When a business is in its first years of existence, it's very tempting for an entrepreneur to put every possible cent toward building the company, often at the expense of a personal financial portfolio. Years later, many owners are still neglecting their own finances, believing the investment they've made in a now-successful company is all they need.

Financial advisors vehemently advocate against this very common practice, which can include tapping an owner's home equity to fund a company. Focusing all your financial resources on a business can jeopardize retirements and children's education funds and leave a family struggling in an emergency.

Bob Doyle, president of Doyle Wealth Management in St. Petersburg, is sympathetic to the fact that a business can be so engrossing that an owner can make personal financial decisions that aren't the most prudent -- he noted that he's a small-business owner himself.

DIVERSITY

"Our largest asset is probably the value of our business," he said. ``But I have a 401(k), IRAs, investment accounts."

Doyle likened an owner's pouring all his or her funds into the business to owning only one stock. "Just as I wouldn't put all my money in Exxon Mobil stock, I wouldn't put all my money into Doyle Wealth Management," he said.

He also warned against raiding retirement accounts, which many owners do rather than trying to borrow from family and friends or when bank loans aren't available. If the business goes south, so do retirement savings -- not to mention the fact that the government will take a big bite out of early retirement account withdrawals, charging hefty taxes and penalties.

INITIAL STRUGGLE

Many small business owners do realize they need to focus on their personal as well as business finances, although it can be a struggle at first to do both.

Over the last six months, Alex Nogueras has raided his savings and pulled equity out of his home to finance Ergo-Tools -- a firm that makes ergonomic garden tools for seniors with a green thumb.

Nogueras, who runs the start-up out of his home near Tamiami Airport, said he's plowed about $50,000 into the company, which has yet to generate revenue.

"Like a lot of start-ups, you incur debt and then hope to work yourself out of it," he explained. ``It is either that or give up ownership of the company."

On hold are IRAs, 401(K)s, a steady income and many other financial safety nets that most of us take for granted, but Nogueras admits he can't neglect his personal finances forever. "The majority of profits will have to get rolled back into the business," he said. ``But I have to get paid in some way -- even though it is minor -- to start getting things paid off."

RISK TAKERS

Kathy Sacks, who owns Sacks Public Relations in Phoenix, recalled being nervous when she and her husband Brian used their home equity to help fund the magazine they started when they were in their 20s.

"We broke all the rules -- you're not supposed to put your personal finances on the line and we did," she said.

The strategy did work for the couple, as they were able to sell their magazine at a nice profit. But that success also encouraged them to keep breaking some of the rules; they each have a business now and are treating the companies, which also include Brian's media business bizSanDiego, as investments rather than diverting money into more traditional portfolios. Their home, however, is no longer tied to the firms.

"I know there's risks associated with this," Sacks said. But, she added, ``we just feel like, given the experience of having sold our first business, we see value in investing in the business, building it and selling it or coming up with some other exit strategy."

Despite such success stories, advisors still caution against putting everything into the business -- as Doyle put it, "just like they wouldn't take money from a 401(k) to buy a high-flying Internet start-up." He noted the high failure rate among start-ups -- and, the Sept. 11 2001, terrorist attacks showed that any company can suddenly become vulnerable.

Miami Herald business writer Jim Wyss contributed to this report.

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