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## Using Your Balance Sheet as a Financial Roadmap

### ALWAYS HAVE A PLAN

After several years of robust growth and generally stable conditions, the current economic environment can be better characterized by heightened uncertainty caused by factors such as inflationary risks, market volatility, and legislative partisanship. This uncertainty increases the importance of holistic financial planning and risk mitigation for individuals.

According to a recent study [1], Americans who regularly engage in financial planning are more likely to feel financially stable, have an emergency fund, be better at managing their debt, and invest with a better understanding of their risk tolerance. Not only can the process help maintain healthier financial habits, but it also creates a roadmap to keep people “on track” towards their financial goals. The roadmap then acts as the foundational baseline should any goals change, or when market and legislative environments inevitably fluctuate. Despite all the benefits, only one-third of Americans have a financial plan, and a majority of that subset have only gone through the exercise once.

Having a financial plan that is dynamic and specifically tailored for an individual can help steer their financial life towards their goals and through uncertain waters.

### IT ALL STARTS WITH THE BALANCE SHEET

At Anchor Capital, we take a holistic balance sheet approach to wealth management. This top-down perspective allows us to ensure all parts of your financial life are working together, and that any changes are appropriately reflected throughout. Making well-informed decisions needs to consider both sides of your balance sheet (i.e., assets and liabilities), the specific makeup of those items, as well as your individual tax, estate planning, insurance, and cash flow profiles.

The balance sheet creation process is the critical first step in planning for your financial goals. All items within your financial life should be included, such as sizeable bank accounts, investment accounts, retirement assets, private investments, real estate, business interests, mortgages, life insurance policies, art & collectibles, etc. Our [Document Request Checklist](#) can be a useful guide for gathering materials for your balance sheet.

Clarity on your balance sheet will not only help establish a custom roadmap towards your financial goals, but it also allows us to identify potential areas of concern and prioritize the action items accordingly. These concerns can include items such as liquidity issues, lack of tax-diversification, and estate tax liability exposure.

Our holistic balance sheet approach can not only identify these risk exposures, but it can help create proactive measures to protect against these vulnerabilities and avoid potential financial setbacks. In the subsequent sections, we’ll dive deeper into these topics with examples.



## Mitigating Potential Illiquidity Risk

Liquidity, or the ease at which an asset can be converted into readily available cash without affecting its market price, is an important metric when determining financial health. Healthy liquidity levels can ensure short-term financial obligations are covered in an efficient manner, and it also allows them to move quickly when market opportunities arise. Conversely, those with illiquidity on their balance sheet can run into problems during times of economic downturns or unforeseen emergency expenses. Everyone’s liquidity profile should be a personalized consideration that reflects their unique financial circumstances.



1. [Charles Schwab Modern Wealth Survey](#)

Liquidity considerations are commonly isolated to the portfolio management process. Investments such as money markets, publicly traded equities, and government bonds can be easily sold with minimal impact on their prices, while private equity and venture capital investments are considered highly illiquid due to potential lock up periods. Taxes should also always play a factor, as a low-basis stock might technically be liquid from a transaction perspective, but the sale will generate a taxable gain and therefore might not be the most efficient asset to tap into. With that said, a person's liquidity profile is not isolated to their portfolio makeup, but rather it should consider their full financial picture.

Analysis at the balance sheet level can provide valuable insight into the individual's true liquidity profile as it would consider critical items such as outstanding liabilities (i.e., mortgages, student loans, credit card debt), real estate, business ownership, and valuable artwork or collectibles. That understanding can help mitigate any illiquidity risks and manage potential financial stressors accordingly.

#### *Example | The Business Owner*

Catherine began her entrepreneurial journey right out of college when she started a digital marketing business with her classmate. While the partners experienced all the financial turbulence of the startup phase, they ultimately steered a growing team towards stable cash flow conditions. Catherine is now able to reliably pay herself enough income to cover the expenses for her and her two children. She decides to work with the Anchor Team to optimize her financial plan.

After diligent analysis of Catherine's balance sheet, the Anchor Team proposes measures to mitigate her elevated illiquidity risk from having a substantial amount of her net worth tied up in the business. While Catherine feels much more confident in the business cash flows and her ability to pull out sufficient income to cover her family's expenses, the Anchor Team notes that as a business owner, she should consider her ownership as a risky asset given industry and market uncertainties. As such, the rest of her balance sheet should be designed to counterbalance her business's risk and illiquidity exposures.

On the investment side, the Anchor Team designs a tailored allocation for her brokerage account that incorporates less volatile income-producing assets, such as dividend stocks and bonds, to balance out the business' inherent risks.

They also design a life insurance program for Catherine that serves multiple purposes. First, her children would be better protected financially should anything happen to her. This protection applies to both loss of income as well as any potential estate tax liability. The latter concern is heightened for business owners as their taxable estates may be significant when factoring in their ownership interest, and the actual tax liability can cause forced sales or other unwanted measures given the illiquid profile. Additionally, the life insurance program includes *key person insurance* which was designed in concert with Catherine's business partner. The purpose of this arrangement is to allow for each partner to continue operating the business should the other pass away, by providing them with funds to buy out the deceased partner's interest.

Knowing her children will be protected and that her balance sheet is designed to offset any business risks, Catherine feels at ease and is able to concentrate on growing her business.

#### HOW ANCHOR CAN HELP

Every individual possesses a unique financial profile based on their goals, assets, income, and risk tolerance. A holistic balance sheet approach is an effective step in understanding your standing and pathway towards your financial goals. Contact your Private Client Advisor to review your individual situation further and design a strategic plan for you.

[\*Click here to catch up on Part 1 of this series, Tax Diversification Across the Balance Sheet\*](#)

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1. [Charles Schwab Modern Wealth Survey](#)

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