



The Exit Strategies Newsletter

ONE LAST HAND TO PLAY

If you believe that there are lessons to be learned from the behavior of others, then this story of Wall Street wealth dissipation may hold a key lesson for you and your exit. Could you imagine holding onto \$1 billion in stock and riding it all the way down to \$56,000 in value. Well, your company may not be worth a billion to begin with but the behavior of the ex-CEO of Lehman Brothers may be helpful to understanding if you too are treating your exit as if you always have one last hand to play.

In the book “Too Big To Fail” author Andrew Sorkin discusses ex-CEO of Lehman Brothers, Dick Fuld’s behavior during the financial crisis of 2008. Before the trouble in the financial markets, Mr. Fuld’s stock in Lehman Brothers was valued at \$1 billion. Like many owners of stock, Mr. Fuld had no reason to think that his holdings would one-day be worthless. After all, Mr. Fuld had taken his company through many hard times. And, like many times before,

Mr. Fuld had survived the crisis of the day.

In fact, Dick Fuld had capital in reserves to withstand a typical crisis in the markets. He had learned many years earlier that rough times do happen and having cash reserves is the best way to weather the storm. As a result, when his company, Lehman Brothers, began to decline in value, Mr. Fuld did not flinch, he held his position and rode his stock holding all the way down – he never sold a single share, losing \$1 billion in personal wealth in a matter of months.

What is the psychology behind someone who resists prudence and some form of diversification for his wealth?

Did this risk-taking CEO apply his professional tolerance for risk to his personal wealth?

Does any of this type of thinking apply to the privately-held business owner?

Of course it does.

The mindset of the entrepreneur is cut from the same cloth as Mr. Fuld. After winning countless battles to grow a business, it's only natural that this owner feels emboldened by these countless victories. Where others have failed, this entrepreneur has succeeded. Despite the fact that this owner has the majority of their wealth tied to one stock – their illiquid business – they live life in an anesthetized fashion, immune to the concerns of risk that they have lived with for so many years. Business immortality is the only way to describe this owner who feels so in control of their own destiny that they continue to bet and bet on themselves and their continued success. These owners always feel that to maintain their edge they always need to act as if there is always one more hand to play and they are never out of the game.

It can easily be argued that it is this exact mentality that creates an owner's success. And, like Mr. Fuld, the bigger the challenge, the larger the ultimate victory – or so they think.

Why is this not a great strategy for your exit plan?

Simply put, the skills that you have to run and grow your business are different from those that you need to

exit successfully. Odds are that you are reading this newsletter because your logic and / or emotions are telling you that wealth protection should become a priority in your business and personal planning. Yet, each day your business presents challenges that are necessary for you to face and successfully overcome.

In the hustle and bustle of your day's activities, think about protecting a part of your wealth. After a recession like the one we have just been through, there may, in fact, not be one more hand to play. When you think about your exit, try not to approach it with the aura of invincibility that Mr. Fuld applied to lose a billion dollars.

Rather, take a more balanced approach and realize that the legacy that you leave will be the ability to honor your many victories and have them celebrated by future generations with the wealth that you pass along. A great family story is one that speaks of courage and wisdom in the proper handling of wealth. A family secret is sown with the seeds of ego and false security in the ability to defy the odds by thinking that you too will always have one last hand to play.

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