



# ADVICE WORTH CLICKING FOR

*James Sutherland, financial adviser, myonlineadvisers*

James Sutherland, winner of the FS Smileys 'The Conversationalist' Prize, is a self-confessed technology freak who recently set up his own AFSL titled myonlineadvisers, with the aim of bringing the financial advice model to a tech-savvy audience.

Managing \$10 million in funds on behalf of 120 clients, James' practice provides financial advice to technology businesses, digital bohemians, IT professionals and graphic designer types. True to label, he outsources all his admin to a virtual admin service run by WAHMs (work at home mums).

Based in Queensland, his influence is far-reaching, having been an active member of the Association of Financial Advisers (AFA) with the mandate to help drive the association's social media strategy.

When he is not on LinkedIn, Facebook or Twitter, James wears the hat of problem-solver for his business called Posh Dosh. In this case study, he helps his clients avoid a costly financial mistake and unnecessary court proceedings.

**W**hat happens when a simple fact-finding mission uncovers a \$250,000 mistake? One adviser sets things right for two business owners who had no succession plan and desperately needed the right insurance cover to protect their dream.

Angus and Peter\*, 38 and 42 years old respectively, run a flourishing technology business. This case study centres on how they've achieved a business succession plan and get adequate insurance cover, while considering their continually changing personal circumstances and family situation.

Angus became a client of James a few years ago after a referral from a general insurance referral source. He had just moved to Australia from the UK and was newly married to Beth\*. Together, they had just started a niche technology business, Tele Technos\*. They had very little money and at the time needed some personal risk protection cover.

"We discussed their initial financial situation, deciding that Angus and Beth both needed insurance cover in place should something happen to them. They had recently bought a house so needed to provide enough cover to pay off this debt," said James.

With the cover implemented, yearly reviews were done to ensure their personal circumstances hadn't changed. Sometime later, the relationship with Beth came to an end. While Tele Technos had grown, it was still in the infant stages. Beth decided to sell her 4 shares and they were subsequently "purchased" by Peter, another expat.

"Angus introduced me to Peter at our next review meeting and we decided that it was extremely important to set up some business succession and keyman cover in light of the new partnership. They both completed a business succession as well as a personal protection fact find so we could see what we were working with," said James.

This fact find showed that while the business had grown exponentially over a very short period of time, there was no current workable valuation for the business. Angus and Peter both held 4 shares, with Angus holding these in his personal name and Peter holding them within his family trust. Peter was married with 3 children and Angus's new girlfriend and her child had moved in with him. Both Angus and Peter had some personal debt.

As there was no business succession arrangement in place, no one could be sure where the money was going to come from if one of the shareholders was to die, become totally and permanently disabled, or suffer a traumatic event.

"Due to the change in Angus's situation and the rapid business growth, we could see that his current insurance cover was no longer appropriate for his personal and business needs. Peter had no cover to speak of, only a small amount held within a retail superannuation fund. We agreed he needed a full needs analysis to cover him for both his share of the business and his family needs."

"We also needed to consider ownership flow and structure as Angus's ownership in the business was held in his name, while Peter's ownership was via his Family Trust. It was important to make sure the ownership and possible payments would end up in the right hands," said James.

## Current situation

### Financial goals

- 1 Create a business succession plan
- 2 Review personal risk insurance portfolio
- 3 Review superannuation funds and investments

### Needs and objectives

- 1 Short term - put business succession cover in place
- 2 Short term - put personal insurance cover in place
- 3 Short term - introduce both Angus and Peter to specialist business succession law firm
- 4 Medium term - review superannuation funds and investments

### Annual income

Income Details	Angus	Peter
<b>Employment Income</b>		
PAYG Salary (before tax)	160,000	160,000
SG Contributions	14,400	14,400
Dividends:	120,000	120,000
<b>Total:</b>	<b>294,400</b>	<b>294,400</b>



#### The quote

*It was important to make sure the ownership and possible payments would end up in the right hands.*

### Assets and liabilities

#### Assets & Liability Summary (Totals Only)

Assets	Current Values \$	Liabilities \$	Owner
Business Valuation	5,000,000		Joint
Warehouse 1	600,000		Joint
Warehouse 2	600,000	400,000	Joint
Superannuation – Client 1	200,000		Client 1
Superannuation – Client 2	500,000		Client 2
Life & TPD Insurance – Client 1	See insurance table		
Life & TPD Insurance – Client 2	See insurance table		
Credit Card			
Personal Loan			
Other: Home contents			

### Needs Analysis

“I completed a needs analysis based on the business and personal fact finding information and upon discussing the needs with Angus and Peter, it was agreed that the business needed a new valuation due to the growth in market share. They were both concerned about not being able to afford to pay the other out if something was to happen, so we all agreed to put some cover put in place immediately until the valuation was done.”

Because no one knew exactly how much the business was now worth, they decided to apply for \$1,000,000 Life, TPD and Trauma insurance cover as an interim measure. James explained that this cover could be cancelled and re-issued in the right name if necessary.

Neither Angus nor Peter had a will or power of attorney. It was agreed these documents needed to be completed at the same time as the business succession agreement so that all documents would complement each other.

They both wanted to review their superannuation needs, however it was agreed due to the immediate need for protection cover, this would be a medium to longer-term goal.

The business valuation took months to come in, so Angus and Peter met with James’ preferred business succession law firm. Company information was presented and draft documentation was drawn up.

“The surprise finding during this process was that Peter’s sale documentation hadn’t been completed properly and he didn’t own the four shares he had purchased earlier for \$250,000! This could have been a potential disaster if it hadn’t been picked up as it meant that Beth still held the shares in her name even though the money had been paid to her some time earlier.”

“Going through the business succession agreement earlier than later meant this was picked up before it became a significant issue with possible court proceedings,” said James.

“It really goes to show that nothing is ever black and white,” he added. “This could have meant the ownership possibly ending up in the wrong hands at exactly the worst time possible.”

The valuation came through at \$5,000,000 many months later. In this time, all of the documentation was in order and the right amounts of cover had been underwritten and put in place.



Angus	Life	TPD	Trauma	Income Protection
Pre-agreed purchase price	2,500,000	2,500,000	1,000,000	
CGT/S’Duty, Legals	300,000	300,000		
Warehouse Debt	200,000	200,000		
Personal Cover	750,000	750,000	500,000	
Income Protection p/mth				15,000
Total Cover	3,750,000	3,750,000	1,500,000	15,000

Peter	Life	TPD	Trauma	Income Protection
Pre-agreed purchase price	2,500,000	2,500,000	1,000,000	
CGT/S’Duty, Legals	300,000	300,000		
Warehouse Debt	200,000	200,000		
Personal Cover	1,000,000	1,000,000	500,000	
Holiday House Debt	1,000,000	250,000		
Income Protection p/mth				15,000
Total Cover	5,000,000	5,000,000	1,500,000	15,000



Angus and Peter often reflect on how much their business would have been affected if they hadn't gone through the whole business succession planning process when they did.

"They still tell to me how relieved they are that the problem with the transfer of ownership from Beth to Peter was picked up when it was."

From their client reviews, Angus and Peter have a much better understanding on what their business is worth. Over the last year or so, there have been a lot of changes, as margins within the telco market are shrinking even though the business is still growing.

### Forming a stronger bond

James continues to visit the business on a regular basis with each visit resulting in more requests for advice.

"I have set up their member fee based Corporate Superannuation \* names changed to protect identities

Plan and it currently has 65 members. I make a point of liaising with new employees about the corporate plan and am looking after several of the key employees financial affairs including debt restructure, budgeting advice and wealth creation strategies."

Angus and Peter were offered the opportunity to purchase the adjacent warehouse. Following discussions, they decided to purchase the property within their respective trusts (Angus has now set one up). This warehouse purchase gave them the space they needed for their expanding workforce.

"They are happier now that Tele Technos is helping to pay off the mortgages on both warehouses as debts are being reduced," said James.

At a review meeting recently, the subject of SMSFs was on the agenda. Peter specifically wants to take more control of his investments and would like to invest more in shares as he can see he is way overweight on property and needs to diversify his investments.

Although Angus would like to do the same, he is moving to South-east Asia permanently to run a new division of Tele Technos and doesn't believe he'll be coming back to Australia. Angus has therefore agreed to leave his funds in the retail fund he has now.

The strategy for now is to set up Peter's SMSF and after this has been done, Peter will contribute up to the concessional cap of \$25,000 and put a value investment share portfolio together along with some international funds to give him the diversity now needed.

"The strategy being worked on fits well with Peter's investment risk tolerance, and we are taking into consideration that he is now age 45 and has another 25 years until he reaches retirement age."

### Investments

Peter has invested in shares in the past with both some degree of success and likewise some failures, so he understands the volatility of the share market. He has agreed however the any investing he has done in the past has been because a "mate has recommended" them and hasn't had an actual investment strategy. Through our education process we have discuss "value investing" as a strategy and the reasoning behind using such a strategy.

It has also been agreed that some of the investments will be allocated to international investments. This will be accomplished using target specific international funds that fit within his risk tolerance.

### Fee structure

Posh Dosh received commission, both initially and ongoing, for the business succession insurance and the personal insurance. The business insurance was upfront commission while the personal cover was completed using hybrid commission.

The Corporate Superannuation plan was on a fee-for-advice basis, with a SoA fee of \$1,550 (plus GST) being levied.

Peter's SMSF will be established at wholesale rates using a referral source who specialises in setting up SMSFs. James will charge an hourly rate of \$250 (plus GST) to facilitate these funds. As outlined in the new SoA, the ongoing fee for service is \$2,400 (plus GST).

Remuneration for advice work provided to key employees has been received via both fee for service and commissions for any risk insurance. **FS**