



# Your Financial Legacy Roadmap

*A step by step plan to help you manage your wealth for the next generation*

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JOSEPH STEPHAN | JAMES STEPHAN

# Your Financial Legacy Roadmap

*A step by step plan to help you manage your wealth for the next generation*

BY JOSEPH AND JAMES STEPHAN

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# Introduction

## *A Personal Tale of Tragedy, Transition and Triumph*

### A DAY THAT CHANGED EVERYTHING

No one can prepare for a family tragedy. You can troubleshoot worst-case scenarios and make financial contingencies, but nothing prepares you for the moment your world is abruptly turned on its head. The shock, grief, and tumult of an accident or catastrophic illness, and the harsh reality that life around you must go on.

We were just boys when our world came crashing down. Seventeen and in my final year of high school, I was in my bedroom studying when our dad, Magdy, came home with news that would change the course of our family's path forever. He had renal cancer and the diagnosis wasn't good. Doctors had given our father six months to live.

We were devastated. Our dad was the family patriarch and leader of the family business. We couldn't imagine a world without our father in it. But it was a complicated, fractured grief, split between our own personal anguish and pressing practical matters: who would pay the bills, support the family, and continue the business? As the eldest son, I felt an immense burden of responsibility.

It was frightening, and there was a lot of worry and anxiety. I didn't have the tools at that age to deal with it in an appropriate way. Dad took me by the arm and said: "You're going to have to look after the family."

Dad was a very strong man, he'd always been a strong leader, and so the responsibility that now fell on my shoulders at that time was quite frightening.



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# Introduction

## *A Personal Tale of Tragedy, Transition and Triumph*

### AN EPIC CHALLENGE

Six months isn't a long time, but that's all the time our family initially had to come to terms with our new reality and forge a way forward. It was 1999, I was on the cusp of adulthood and about to grow up really fast. Our father's accountancy business, Magdy M Stephan and Company, had a small but loyal band of clients and they needed continuity in their taxation affairs - even if the man they had long entrusted with them was no longer at the helm. Magdy Stephan was a doer, a real pioneer in his field. He had trail-blazed one of the first financial planning degrees in Australia and was a full-time academic at RMIT University, a position he held while also juggling a successful accounting practice. His were big shoes to fill.

As successors, we had a proud and distinguished legacy to uphold. But how? Where to start?

In the early years of the transition I was still trying to develop my own capability as a leader. Dad was such a strong leader, and strong leaders can have the impact of making you into a follower- always asking what you should do next, what steps should we take-rather than actually taking charge and taking on the leadership yourself.

But something remarkable happened. Dad defied the odds and lived for another 10 precious years. In that time we were able to lean on our father's expertise, getting the mentoring and support we needed to eventually take over the family business.

But it wasn't easy.



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# Introduction

## *A Personal Tale of Tragedy, Transition and Triumph*

“ *We should have been thinking more strategically about the people we needed around us; we needed wiser heads than ourselves, people who could provide the right mentorship and support.* ”

### A DIFFICULT TRANSITION

Hindsight is a wonderful thing, especially when it comes with the benefit of education, maturity, and on-the-ground experience. In the early days, I had little of this, and I accept some things could have been done better.

In the absence of a business exit strategy, our father and our family had to make important decisions on the fly. In the years following our dad’s diagnosis, I was studying a Bachelor of Business, majoring in financial planning, at RMIT University. I had no expertise in accounting, which was the mainstay of the business, and this weighed heavily on dad’s mind.

In 2002 the accountancy arm of the business was sold in what can only be described as a “fire sale”, and years of our father’s hard work and hard-won relationships-built on trust and reputation-slipped from our family’s grasp. Those years were a whirlwind. Emotion weighed in on decision making, and I regret not having an independent voice in the family’s corner - someone who could provide sound, pragmatic advice and steer us on the right path.

While there were certainly a lot of loyal and great people along the way who helped us, the reality was that we were taking on any support that we could, so we weren’t aware of people’s competencies, we weren’t necessarily asking the right questions-we were guided by friendship, more than anything.

We eventually employed a business coach and started assembling a team of specialist advisors around us. The outcome was transformational: the business now had a brains trust underpinning its strategic direction and driving its success.



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# Introduction

## *A Personal Tale of Tragedy, Transition and Triumph*

“ *Personal experience is the greatest gift a wealth advisor can give when guiding a client through the complex and sometimes fraught process of family wealth management and legacy planning.* ”

### LEADING FROM EXPERIENCE

With the Stephan brothers, our advice isn't purely academic, it's enriched by life experience: we've been there, suffered a personal tragedy, transitioned a family business, and come through the process stronger and better for it.

The greatest lesson we've learned is that you can't go it alone. You need a team of professionals around you who are experts in their fields, and this is what Stephan Independent Advisory provides for our clients.

It's vital that you surround yourself with people who are better than you in areas that you are deficient, people who understand your circumstances and can highlight the key potential disaster areas that might impact your business, and plan for disaster even if it doesn't happen. This ensures that the transition becomes a lot smoother, so that you're not putting out spot fires as you go along. It costs a lot less to do it earlier rather than later, not only in avoiding costs of solicitors dealing with messy situations but also in time wastage as you scramble to try and work out a way forward.

In this Special Report, we look at how you can successfully transition out of your family business, while leaving your legacy intact and setting your family up for a secure future.



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# Introduction

## *A Personal Tale of Tragedy, Transition and Triumph*

### ABOUT THIS SPECIAL REPORT

In Part I of this Special Report, The Key Issues Keeping Family Business Owners Awake at Night, we delve into the key business challenges and family considerations that can be a roadblock in transitioning from business success to enduring financial success.

If you feel both the success of your business and the constraints on your lifestyle, this will resonate with you.

The shortest route to providing strong family leadership in wealth management is by systematically doing what has been shown to work. That's why in Part II, An Ideal Structure for Comprehensive Wealth Management, we will walk you through a structure which ensures the complex wealth management needs of your family are addressed thoroughly.

In Part III, Case Study - The Hatfield Family Business, we take you through a practical example of the challenges of a family in the business of commercial cleaning, and how they were able to address their key challenges using our wealth management structure.

Finally, in Part IV, Making It Happen, we provide you with our view on the key selection criteria that's vital to consider in the recruitment of professional advisors to sit within your wealth management advisory team.

Through our extensive research it's become abundantly clear that the same control employed to build a successful family business is a significant detractor in building a world-class wealth management plan that's inclusive, collaborative, and enduring.

### IMPORTANT INFORMATION

To fully understand the specific challenges of today's family business community, we conducted in-depth interviews with a number of people, including family business leaders within varying industries, and related family business advisors within Melbourne and several parts of the United States. We selected each for their ability to provide insights into the financial issues faced by family business leaders today.





# Part I

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*The Key Issues Keeping  
Family Business Owners Awake at Night*

# The Key Issues

## *Keeping Family Business Owners Awake at Night*

“ *The KPMG study\* found one quarter of family businesses had no management transition strategy in place, and only 14 per cent had a documented plan for training a successor before the handover.* ”

### SUCCESSION PLANNING

Familial ties are the greatest strength of any small business. But they're also the greatest weakness.

When the success of a business is anchored to a few family members, what will that business look like when they're no longer at the helm?

Who will take over, and do they have the capability to successfully continue the business and uphold the family legacy?

These questions weigh heavily on the minds of family business owners as they grapple with the emotional and logistical complexities of transitioning out of the business.

The emotional strain can't be underestimated. For many, the family business is an intrinsic part of the owner's personal identity and self-worth. They may have spent years, decades, or even their entire working life building up a business, growing relationships and trust, and developing a solid reputation. Often the business is an extension of the family's core principles and values, and stepping aside feels like they're abandoning their life's work and the fabric of the family unit.

Making the decision to exit the business is a big move; deciding who should be the successor is an even greater challenge. And it's a decision that can be fraught with angst and family conflict, especially if there are several adult children and other stakeholders involved. A 2015 KPMG and Family Business Australia survey found that 80 per cent of business leaders experienced conflict or tension within the family, and succession-related issues were one of the top five cause; sibling rivalry, isolating children not involved in the family business, and pressure to continue the family legacy are all complicating factors.

Then there's the very real question of capability and planning. Unfortunately, this is where many family businesses fall short.



# The Key Issues

## *Keeping Family Business Owners Awake at Night*

“ *While a changing of the guard represents a major upheaval for a family business, from an operational perspective it must remain business as usual.* ”

### KEY LEARNINGS: *Succession Planning*

A common theme we found in our interviews was the strong link between running the family business and the family business owner's perceived identity, and that they felt succession planning was a step towards losing this identity. This reluctance to hand over the business' reins, and the complex family dynamics involved in doing so, were both major contributing factors in the avoidance of succession planning.

### BUSINESS CONTINUITY AND RELINQUISHING CONTROL

Being in control of your livelihood is the greatest benefit of running a family business: the satisfaction of creating something for your family's future and having the power to make important decisions about the business's growth and direction. But what happens when business leaders start to transition out of the business and those decisions are no longer theirs to make? How will they feel about relinquishing control to a less-experienced successor and being sidelined on major strategic decisions?

During the transition, old and new generations will no doubt have differing - and sometimes competing- ideas about the future direction of the business. The retiring leader will be focused on business maintenance and consolidation, and will want to make sure they're passing on a healthy asset. Their successor, however, will be looking at future growth and how they can position the business to augment its long-term profitability and market relevance.

Like any delicate family situation, careful planning, communication, and mutual respect are key if it's to be a smooth transition.



# The Key Issues

## *Keeping Family Business Owners Awake at Night*

### KEY LEARNINGS:

#### *Business Continuity and Relinquishing Control*

Family business owners have a deep emotional connection with what they've built, and a change in leadership leaves them feeling like they won't have control anymore. We learned that they want peace of mind that their business will continue to run the way it always has, and their hard-won relationships are maintained. The key concern is trust—they need to see that they can trust their successor.

### RETIREMENT AND INCOME CONTINUITY

A family business is a valuable nest egg: millions, if not tens of millions of dollars tied up in a profit-making entity. If a business owner sells the asset to an unaffiliated third party, they unlock a retirement windfall that will comfortably see them through their twilight years.

Releasing capital when you hand over the reins to a family member is an altogether different and more complex proposition. Often, a significant portion of the business owner's personal wealth is tied to the valuation of the business, and they need to release at least some of this equity to maintain their level of income into retirement. But a straight buyout from a family successor may be unfeasible. This is a financial dilemma that must be planned for and worked through with the relevant parties.

Once the capital has been released, that's great, but now what will the business owner do with these funds? These are the means for them to sustain themselves for the rest of their retirement.

Managing retirement equity is crucial if the family's cash flow and lifestyle are to be maintained, and also to ensure that the funds are working hard and achieving the desired performance objectives. An experienced wealth management team can utilise the most effective investment structures to minimise tax and ensure good income continuity. This is important because many business owners may not have any other retirement savings to fall back on. In fact, the KPMG survey found that only nine per cent had a retirement plan.



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# The Key Issues

## *Keeping Family Business Owners Awake at Night*

### KEY LEARNINGS:

#### *Retirement and Income Continuity*

The prospect of retiring after a lifetime of hard work is daunting for family business owners, and less than 10 per cent have a strong retirement plan in place. Through our interviews we learned that the major concern is ensuring mechanisms are in place to enable family business owners to maintain an adequate income that enables them to enjoy their retirement to its fullest. Utilising the services of their wealth management team will ensure that their income continuity is maintained.

### LIFE AFTER BUSINESS

Family businesses are all-consuming. They're a 365-day a year commitment that brings unrelenting demands, but also immense satisfaction and reward. Many exiting family business owners are justified in fretting about what life has in store for them post retirement: how will they relate to the community when the very thing that defined their engagement (their work) is no longer there? And what impact will this have on their broader sense of identity and self-worth?

Often business owners are so absorbed in their work that they neglect to develop and maintain social networks and personal interests outside of the business. These social outlets are important for establishing a sense of self, separate to the business, and remaining engaged with friends and the wider community. It's difficult to pick up a golf club for the first time in your 60s, but if you've enjoyed a social hit over the years, taking to the fairway more regularly will be a delightful introduction to retirement.

Business leaders work hard and enjoy the fruits of their labour, but also relish the satisfaction of giving back to their community through philanthropy. They want to make sure that their hard-earned money is soundly invested and sustainably managed to minimise taxes and fees that erode their capacity to give. They know that the more funds they can retain, the greater the impact they can have on causes that are dear to them.



# The Key Issues

## *Keeping Family Business Owners Awake at Night*

### KEY LEARNINGS:

#### *Life After Business*

The biggest roadblock we see appearing time and again is that family business owners who have worked their whole life for their business often link their personal identity to the business', and entering retirement makes them feel like they're letting go of their identity. Our key learning here was that having a strong retirement and investment plan in place early enables family business owners to see that there is a life for them outside of their business, one where they will still be a functioning member of society.

### EXHIBIT 1.1

#### *The Four Key Issues Keeping Family Business Owners Awake at Night*

KEY ISSUE	SUMMARY OF CHALLENGES FACED
<b>Succession Planning</b>	Will future generations have the necessary expertise and knowledge to drive the business into the future? Is there a shared business vision across generations? How does a transition occur without conflict?
<b>Business Continuity</b>	Concerns around relinquishing operational control of major business decisions to the next generation. Concerns about the business continuing as an ongoing concern post the business leader's exit.
<b>Income Continuity</b>	What income level will sustain the business leader's ideal retirement? What mechanism allows the business to unlock the wealth to the business owner? What personal structures and investments should be considered for sustainable income generation?
<b>Life After Business</b>	Self-worth and identity are often entrenched in the business. Life after business is an unknown. Personal support structures are required to replace business support structures. What will retirement look like and what is the business owner's purpose?

# Part II

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*An Ideal Structure for  
Comprehensive Wealth Management*

# An Ideal Structure

## *For Comprehensive Wealth Management*

“ *Sound wealth management is about getting the mix right between consultation, collaboration, and education.* ”

It should never be limited to a conversation with an investment consultant alone; the ideal wealth management formula is a combination of **Investment Consulting, Advanced Planning & Relationship Management.**

### MORE THAN JUST INVESTMENT CONSULTING

When family business owners engage a wealth advisor they're conditioned to expect expert investment-centric advice. Advice on what to do with their hard-earned cash reserves, how much to invest and with whom, and their exposure to risk. But investment consulting is only one part of the equation, and it's not particularly helpful in the absence of an overarching wealth management solution (WMS).

Without a comprehensive WMS, how will you have certainty around your cash flow to support your investments, and whether your portfolio will align with your long-term financial goals and life aspirations? At its heart, wealth management is about understanding the fundamental 'why' behind the investment decisions that we make and the synergies between the person (family, community, and passions) and their finances (structures, capital, and investments).

85 per cent of Australia's 18,000 financial advisors are affiliated with a bank or financial institution . This means that their advice is often skewed towards a specific product, and may not be in their client's best interests. In fact, it makes them pseudo salespeople, with the product driving the advice process, and the client's needs are given secondary importance.



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# An Ideal Structure

## *For Comprehensive Wealth Management*

### FINANCIAL ADVISOR AFFILIATION



The ideal advice model should always put the client's needs first, and should be underpinned by a comprehensive strategy, with the advisor serving as the facilitator and custodian of their client's life goals and financial objectives.

**Advanced Planning** comprises all the strategic financial considerations necessary for long-term wealth management, including:

- Wealth Enhancement - creating wealth through maximising cash flows and minimising tax liability.
- Wealth Transfer - dispersing assets and capital to the next generation during the business owner's lifetime and through estate planning.
- Wealth Protection - investment planning and risk mitigation; identifying personal and financial risks and putting in place insurances and other strategies to protect long-term goals.
- Philanthropy - charitable giving within a sustainable and tax-effective framework.

Given the vast array of specialist technical areas and services required, robust advanced planning is critical to **ensure a comprehensive wealth management strategy that sees the family business owner and their family looked after into the future.**



# An Ideal Structure

## *For Comprehensive Wealth Management*

A harsh truth that family business owners must face is that no matter how good their investment consulting approach may be, if their wealth management advisor doesn't have the necessary skill and ability to provide robust advanced planning services, then they shouldn't be trusted to handle the unique succession planning and wealth preservation needs of the family. Therefore, it's key to find a wealth advisor who has in-depth, specialist knowledge in these four areas. This is not a place where one can cut corners.

“ *Sound wealth management is about getting the mix right between consultation, collaboration, and education.* ”

**Relationship Management** is the third element in the equation and is about collaborating with a trusted, independent third party (advisor) who can provide impartial support and advice to all stakeholders. The advisor is an unofficial mediator when stakeholders have conflicting views, and provides objective guidance that's always in the best interests of the family. The advisor also takes the lead role in building relationships with other professionals in the financial services sphere to ensure that the client has the right expertise at their fingertips to achieve their financial goals.

This brains trust of professionals works collaboratively, and may include accountants, financing experts, commercial and estate planning solicitors, personal insurance advisors, and business management consultants.

No wealth advisor is an authority on all disciplines, and business owners should be wary of firms that purport to be a one-stop-shop for advice. This can lead to conflicts of interest, particularly if the firm is focused more on building their profits than serving the unique needs of their clients.



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# An Ideal Structure

## *For Comprehensive Wealth Management*

### THE WEALTH MANAGEMENT FORMULA

**WM (WEALTH MANAGEMENT)**  
 =  
**IC (INVESTMENT CONSULTING)**  
 +  
**AP (ADVANCED PLANNING)**  
 +  
**RM (RELATIONSHIP MANAGEMENT)**

### **AP (ADVANCED PLANNING)**

=  
**WE** (Wealth Enhancement: tax mitigation and cash flow planning)  
 +  
**WT** (Wealth Transfer: transferring wealth effectively; may not be within a family)  
 +  
**WP** (Wealth Protection: risk mitigation, legal structures and transferring risk to insurance company)  
 +  
**CG** (Charitable Giving: maximising charitable impact)

### **IC (INVESTMENT CONSULTING)**

=  
 Management of all investment elements to maximise the probability of clients achieving all that's important to them.

<b>Portfolio performance analysis</b>	<b>Cost impact assessment</b>
<b>Risk evaluation</b>	<b>Tax impact assessment</b>
<b>Asset allocation</b>	<b>Investment policy statement</b>

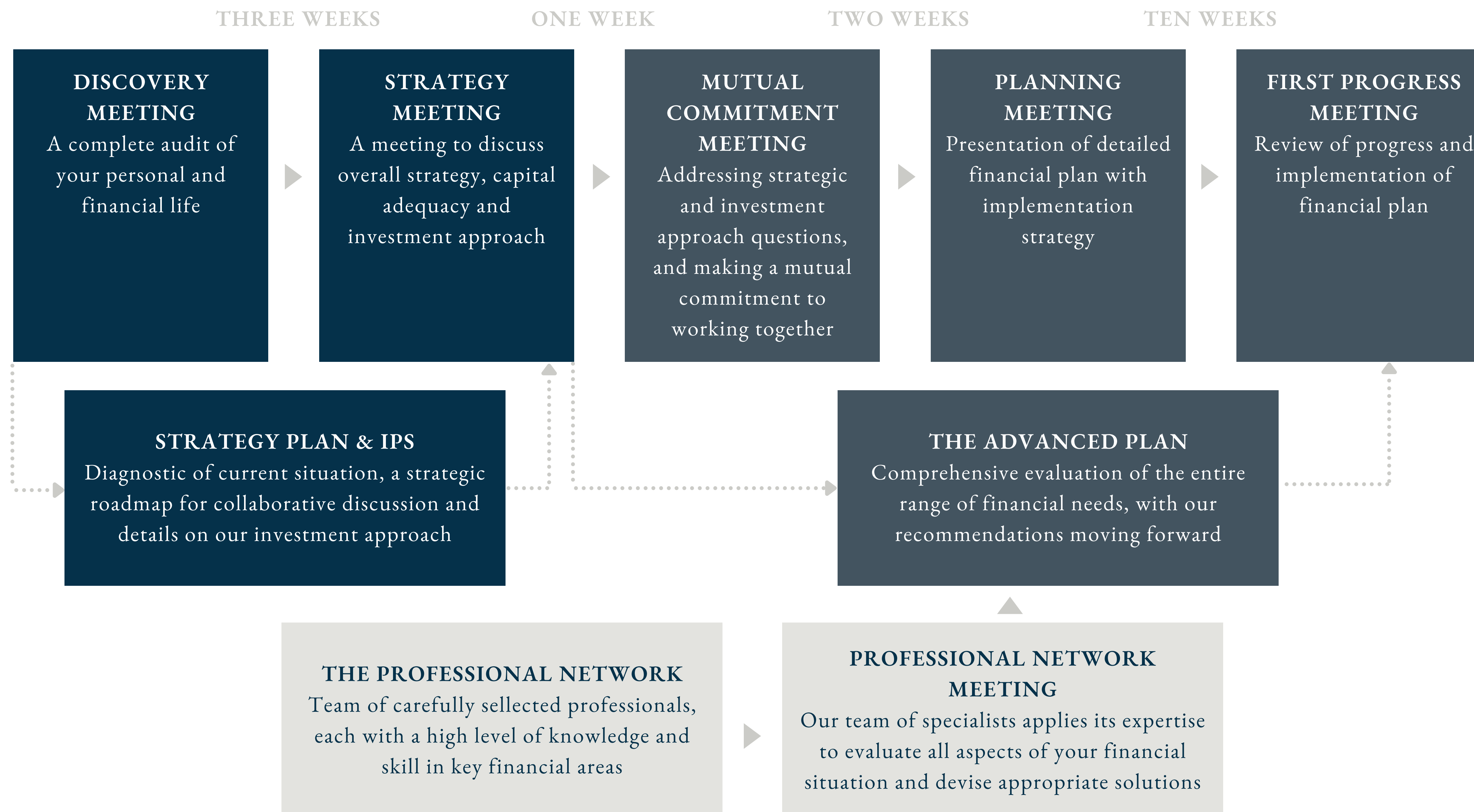
### **RM (RELATIONSHIP MANAGEMENT)**

=  
**CRM**  
 (Client Relationship Management)  
 +  
**PNRM**  
 (Professional Network Relationship Management)

# An Ideal Structure

## For Comprehensive Wealth Management

### THE WMS PARTNERSHIP PROCESS



# An Ideal Structure

## *For Comprehensive Wealth Management*

“ *A good wealth management solution is crucial for any family business owner who wants to preserve their life's work and pass on a valuable asset to the next generation, while sustaining their standard of living into retirement.* ”

### THE BENEFITS OF A WMS

A comprehensive WMS is holistic, leaving few, if any, variables to chance. It addresses the key challenges confronting all business owners: succession planning, business continuity, retirement and income continuance, and life after transitioning out of the business.

With the right wealth management team in place, the business owner can be assured that the advice they're getting is impartial and developed with the sole objective of satisfying their needs and achieving their goals. The process is collaborative, so not only are the client and relevant stakeholders involved at every step, but a network of independent, vetted professionals is also engaged, ensuring that the financial plan is underpinned by the most rigorous methods and expertise.



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# Part III

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*Case Study:  
The Hatfield Family Business*

# Case Study:

## *The Hatfield Family Business*

### A CLEANING ENTERPRISE

Sam and Kylie Hatfield operated a successful manufacturing business that provided cleaning products to commercial cleaners. The business was built on many years of blood, sweat, and tears, and was valued at more than \$10 million. Shortly after his 60th birthday, Sam realised that it was time to think seriously about retirement-but it's a difficult prospect when you've been self-employed all your working life, and a large portion of your retirement savings are tied up in the business.

Sam and Kylie have three adult children and seven grandchildren. They live for their family and wanted to ensure that while enjoying a comfortable and fulfilling retirement, their family would also be provided for long into the future. The couple's children had forged successful careers outside the family business, but Sam dearly hoped his sons would take over the reins and continue the family legacy.

### THE CHALLENGE

The Hatfields were asset rich; on paper they were worth upwards of \$15 million, excluding their business. They owned their house in Melbourne's leafy inner suburbs, had a holiday house on the Mornington Peninsula, and were debt-free. They had a significant amount of capital invested in a Self-Managed Superannuation Fund (SMSF). But their wealth was scattered and disjointed. They lacked an overarching structure to coordinate their various ad hoc investments and, more than anything, they needed a strategy for unlocking capital from the family business to shore up their retirement income.

Sam wanted to begin a conversation with his sons about taking over the family business, but he didn't know where to start, nor did he understand the financial implications of an inter-family sale and how to effectively transition out of the business. The Hatfields had engaged a trusted accountant for many years who helped manage much of their financial affairs, but they needed broader advice beyond his expertise.



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# Case Study:

## *The Hatfield Family Business*

### THE GOAL

Sam and Kylie Hatfield's ultimate goal was to preserve their wealth so they could maintain their lifestyle into retirement, enjoying all the things that make life worth living - dining out, overseas holidays, and entertainment with family and friends. Their retirement security hinged on a successful transition out of the business that would unlock maximum capital with minimum tax liability. Sam also knew that he needed to diversify his investment portfolio and provide a support structure for Kylie, who had taken a backseat in their financial dealings.

When it came to supporting the rest of his family Sam considered it imperative that he put structures in place to provide for the financial well-being of his children and grandchildren.

But he didn't want to simply give them a cash handout; his contribution had to be structured in a measured and meaningful way that would fund their education and life opportunities without eroding their work ethic.

Like every family business owner, Sam worried that once he relinquished control of the business his family's hard-earned wealth was only ever one marriage break up away from being squandered. He and Kylie had worked too hard to ever let that happen, and Sam knew he needed to seek legal advice about how to put provisions in place to protect the estate should one of his adult children divorce. Outside his family's immediate interests, Sam also felt an intrinsic responsibility to his local community. He and Kylie were valued members of their local church and parish benefactors and also gave generous donations to various other charities. Sam didn't want his community contribution to cease just because his work commitments had. It was important that he find a way to continue making a sustainable contribution to the causes about which he was most passionate.



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# Case Study:

## *The Hatfield Family Business*

“ *Sam engaged a wealth management advisor who devised an effective roadmap for his long-term financial prosperity.* ”

### THE SOLUTION - A PERSONAL CFO

Sam recognised that as a retiring family business owner he had complex wealth management needs. They were not the kind of needs that could be resolved in a one-off consultation with a financial planner; he needed a team-led by a personal CFO-to bring together all the threads of his financial, business, and family affairs.

In an initial discovery meeting the advisor teased out all of the pertinent information about the Hatfields, their business, and the nuances of the family unit, including key stakeholders, assets, structures, life goals, values, and financial objectives. Next, the advisor assembled a brains trust of specialist, independent advisors, who forensically assessed the couple's current circumstances, identifying any gaps in their financial situation and strategies for improvement.

The lead advisor coordinated the wealth management team, introducing each of the professionals to Sam and Kylie, organising meetings and clearly articulating their individual roles and responsibilities, as well as managing any areas of crossover.

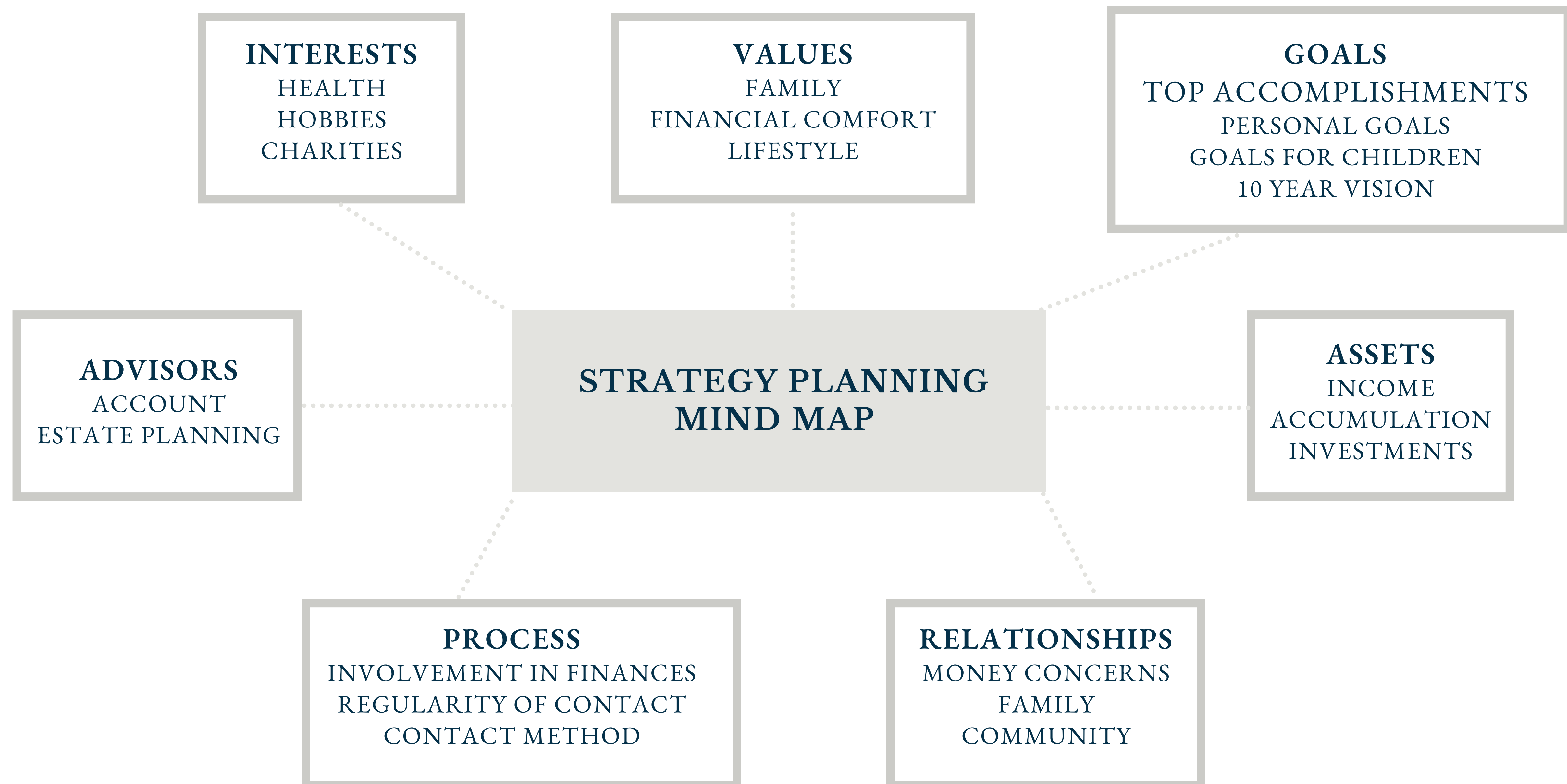
Together the team of professionals came up with a holistic wealth management strategy that would be implemented over the course of one year and continually reviewed, in collaboration with the Hatfields. Each advisor took ownership of matters within their respective areas of expertise.



# Case Study:

## *The Hatfield Family Business*

### CASE STUDY MIND MAP



# Case Study:

## *The Hatfield Family Business*

### They included:

- **The wealth advisor** responsible for helping Sam and Kylie articulate and cost their retirement vision, and coordinating the wealth management team. In consultation with the accountant, the wealth advisor organised structures to ensure the couple's wealth enhancement and protection into the future. This entailed managing the effective dispersal of capital through a diversified investment strategy, which focused on preserving wealth and minimising tax and investment fees. The wealth advisor helped Sam and Kylie establish a private ancillary fund to ensure they could continue their charitable giving in the most tax-effective way, and implemented a long-term investment strategy to ensure the sustainability of capital for the benefit of the charities most important to them.
- **A business consultant** specialising in exit and succession strategies who helped Sam develop a plan and set a clear timeframe for transitioning out of the business. This involved identifying the key strengths and weaknesses of Sam's successors (his sons) and developing a mentoring strategy to prepare them to eventually take over the business. It was important that the transition was smooth and carefully executed to eliminate any disruption to customers.
- **An accountant** with best-practice financial experience in the manufacturing industry who provided a thorough valuation of the business. The accountant also analysed the business's current financial structures, taking advantage of small business tax concessions that would enable the Hatfields to legitimately minimise their tax liability resulting from the sale. A critical part of this process was a comprehensive assessment of the capital costs expended in establishing the business against the sale price to minimise capital gains tax. The accountant worked with the wealth advisor to ensure the wealth preservation of the capital resulting from the business sale, and was ultimately charged with making the business exit as tax-effective as possible.



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# Case Study:

## *The Hatfield Family Business*

- A **commercial lending specialist** who was engaged to undertake a comprehensive assessment of the financials, operations, and risks of the business, and prepare a proposal to put forward to their panel of financial institutions to assist in obtaining finance for Sam's sons to acquire a portion of the business. This partial sale enabled some initial equity to be released to Sam. A plan was then developed to enable the sons to gradually acquire additional shares over time through a combination of financing and capital contributions from business cash flow.
- An **estate planning solicitor** experienced in managing complex financial affairs where a family business is intertwined in the individual's estate. The solicitor was responsible for ensuring Sam and Kylie's assets were effectively distributed to their children and grandchildren in a manner that was flexible, tax-effective, and protected their assets, and provided Kylie with the necessary support mechanisms to effectively handle the estate should Sam predecease her. An advisory council was appointed (comprising a solicitor, a wealth advisor, and an accountant) to effectively manage the estate and provide a support network for Kylie and the couple's adult children, and ensure the tax-effective distribution of income to the family and appropriate investment of funds to ensure the preservation and longevity of capital. A testamentary trust was established to limit the sons' ownership of estate assets, thus protecting them from exposure to any future creditors, and binding financial agreements were drawn up to protect the family business in the event of a marriage break up or family law dispute. Contingency plans for Sam's sons were also devised, with a commercial solicitor engaged to prepare the necessary shareholder and buy/sell agreements should either son decide to exit from the business in the future, and mechanisms were put in place for the implementation of personal insurances should the unthinkable happen to either of them.



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The wealth management solution documented key recommendations, expected outcomes, deadlines, and tasks to be completed by nominated stakeholders.

During the implementation phase, selling and transitioning out of the business was identified as the key priority, and most resources and energy were funnelled into this task. At subsequent progress and accountability meetings the team assessed the initiatives completed so far and set their sights on the next implementation phase, which included developing a cash flow strategy and budgets post retirement, as well as reviewing and updating general insurances. Importantly, the Hatfields were actively involved every step of the way, and the process was methodical and calculated, drawing on the best minds in the business to minimise the chance of error and ensure that the solution best satisfied the identified goals and objectives.



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# Case Study:

## *The Hatfield Family Business*

### STRATEGY MAP



# Case Study:

## *The Hatfield Family Business*

### THE OUTCOME

The Hatfields successfully transitioned out of the business within a year, handing over the reins to their sons in a clear and methodical transition. They managed to minimise the tax they paid from the sale by taking advantage of small business concessions, and exited feeling confident that the business was in good hands and the family legacy protected.

Sam and Kylie are comfortable that they can live the retirement they've always dreamed of, with certainty around how much income they will be generating and its sustainability into the future. This is in part thanks to the diversification of their SMSF, and the reallocation of capital from property to other investment classes such as fixed interest and equities. They're satisfied this will preserve their wealth in the long term and secure their retirement, regardless of any unexpected hiccups, including if something were to happen to Sam. Kylie has become more involved in progress meetings, has taken a greater role in understanding the family finances, and knows the support mechanisms available to her if her husband is no longer around. This is a great comfort to Sam.

The couple's children and grandchildren are also taken care of, with the Hatfield's intentions clearly articulated in estate planning documents. Furthermore, there are provisions in place to protect the family's hard-earned wealth and ensure a structured and secure intergenerational transfer of assets going forward. As beneficiaries, the Hatfield children understand their responsibilities to the family business and how any family law issues will be resolved.

For the first time, Sam and Kylie feel the weight of the business lifted from their shoulders and know that their legacy will be protected and their financial future assured, no matter what happens.



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# Part IV

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*Making it Happen*



# Making it Happen

Choosing the right wealth advisor can be the make or break point of a family business owner. Individuals in business have complex and unique needs that are continually subject to change. For this reason, a one-size-fits-all approach to wealth management is not only vastly inadequate, but potentially detrimental to the business owner's long-term financial prosperity, and that of their family.

Choose a wealth advisor like you would a business partner and your finances will be in good hands.

## THE COMPETENCY TEST

At a minimum, your wealth advisor must be suitably qualified. Ensure that they're a Certified Financial Planner™ and have the requisite credentials, including an Australian Financial Services License (AFSL) issued by the Australian Securities and Investments Commission (ASIC). Preferably, they should also be a member of an independent industry body such as the Certified Independent Financial Advisers Association (CIFAA) or the Financial Advice Association of Australia (FAAA). Look for the CIFAA's Gold Standard of Independence stamp on the advisor's website or marketing collateral and you can be assured that they satisfy the association's three criteria of independence: no links to product manufacturers, no commissions, and no asset-based fees.

Avoid working with advisors who are generalists and don't specialise in helping family business owners, and make sure that the advisor has expertise in your specific industry. There are numerous practising advisors who specialise in many and varied fields; find one that best fits your specific circumstances, so you can be confident they can manage your unique needs.



# Making it Happen

“ *Relationships with wealth advisors are built on trust: you should be able to trust that your advisor always has your best interests at heart.* ”

## WHY IS INDEPENDENCE IMPORTANT?

Independence is the most important factor to consider when selecting your wealth advisor. How else will you know that the advice you are receiving is in your best interests and not simply in the best interests of their firm? Many advisors are affiliated with financial institutions and are pseudo salespeople, driven by commissions. This means that the advice they give is skewed towards selling a product and meeting their own KPIs, rather than genuinely serving their clients' needs.

This means that they'll go out of their way to avoid any conflicts of interest, and any referrals they make on your behalf are based on objective advice, not advancing financial relationships with other professionals.

## THE CIRCLE OF ADVICE

The ideal advice model is one that puts the client front and centre, surrounded by a specialist team of independent experts who are leaders in their respective fields. The wealth management advisor coordinates the inner circle of professionals-which may include accountants, lawyers, estate planners, financial planners, and insurance advisors-to produce a holistic wealth strategy that's backed by the best minds in the business. The professionals work together collaboratively and inclusively in conjunction with the client, brainstorming and sharing information, strategies, and goals that will eventually feed into a robust, all-encompassing wealth management solution. Importantly, none of the professionals have any kind of financial arrangement with the wealth management advisor, or each other. This means that they're selected based on their credentials alone, and that the advice given provides genuine value for the financial commitment.



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# Making it Happen

“ *Engaging a wealth advisor should herald the start of a long-term professional relationship. You're both in it for the long haul, so choose wisely.* ”

## PARTNERS FOR LIFE

Wealth management isn't a quick fix proposition. You don't meet with an advisor, analyse your finances, make a few tweaks to your affairs, and just set and forget. A wealth management strategy must be continually reviewed and its progress assessed to ensure that it keeps pace with changes in the financial and investment landscape, and continues to meet the evolving needs and circumstances of the client.

## ABOUT THE AUTHOR

Stephan Independent Advisory is a wealth management practice specialising in helping successful family business owners enhance, preserve, and transfer their wealth. We leverage the expertise of a network of trusted, independent professionals to deliver a holistic wealth management solution that meets the complex needs of our clients. We believe in collaboration, trust, integrity, and professional rigour, and partner with our clients to facilitate outcomes that satisfy their long-term financial objectives, personal goals, and values.



[SIADVISORY.COM.AU](http://SIADVISORY.COM.AU)

Stephan Independent Advisory Pty Ltd AFSL 476427



# Thank you

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JOSEPH STEPHAN | JAMES STEPHAN

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# Follow-up Reading

FOR MORE INFORMATION ABOUT WEALTH ADVISORS AND FAMILY WEALTH MANAGEMENT, REFER TO THE FOLLOWING SOURCES:

**Family Business Australia advisor portal**

[fambiz.org.au/resource-centre/find-a-family-business-adviser](http://fambiz.org.au/resource-centre/find-a-family-business-adviser)

**Financial Advice Association of Australia checklist for choosing an advisor**

<https://faaa.au/things-to-consider/>

**Financial Advice Association of Australia Code of Professional Practice**

<https://faaa.au/member-regulations/>

**Certified Independent Financial Advisers Association**

[cifaa.asn.au/find-an-adviser](http://cifaa.asn.au/find-an-adviser)

**Super Guide List of Independent Financial Advisors**

[superguide.com.au/retirement-planning/truly-independent-financial-advisers-in-australia](http://superguide.com.au/retirement-planning/truly-independent-financial-advisers-in-australia)

