The Entrepreneur's Dilemma

When a business owner sells all or part of his stake in the company, the change he experiences is often more dramatic than originally anticipated. Prior to the sale, wealth is an abstraction. The tangible rewards of ownership (e.g., regular salary, bonus, and dividends) are all most owners see of the worth of the business. Daydreaming about the price a buyer might pay by capitalizing earnings might be cause for an occasional rush but usually passes during the next incoming customer service problem call. As far as the assets of the business are concerned, the owner of a business appreciates that the value of accounts receivable, inventories and plant and equipment can be impaired significantly if business activity slumps. In the event the earnings of a business are capitalized, when the owner is handed a large check and/or a stock certificate or note from the buyer, what was once a vague notion of wealth becomes immediately real in dollars and cents terms. The event is often traumatic. On one hand, the value of the business has been immediately converted to cash or marketable securities, legal tender in a number 10 envelope. Its worth to someone else is firmly established. On the other hand, the thought that the worth of many employees, plants, equipment, inventory, rituals, routines, memories, from which the owner derived so much meaning in his or her life, has given way to the new venture of managing assets that are of an intangible nature.

The management of liquid wealth, the process of giving cold dollars new life and energy, calls upon a different skill set and temperament than what was required to produce it. Success in an operating business may rest on marketing or production savvy, or visionary leadership or people management skills. The toughest transition for those hands-on owners who have no continuing responsibility in the business and who with the stroke of a pen no longer have any reason to set a wake-up alarm is to find equivalent meaning in life after the sale. Investment management is largely a cerebral process that relies more on analytical capabilities than on the management acumen necessary to get things done through people and machines. Operating managers are typically not the kind of people who understand the inner workings and vagaries of the capital markets and are often ill-suited to practice investment management with the same proficiency with which they managed their business. Some pay enormous tuition to learn that important lesson.

If a seller commits to managing the business for a time after the sale is consummated, he finds himself doing double duty. Because of the practical immediacy of the business demands, in juggling responsibilities it is often the investment portfolio that gets short shrift.

We encourage our entrepreneurial clients to view Martin Capital as surrogate managers, shoring up the seller's confidence by bringing demonstrated competence, experience, and a reputation for uncompromised trustworthiness to the task of managing intangible assets. The seller ascends to the role of Chairman of the Board, a vantagepoint from which most feel comfortable and in control of their destiny. We, their management team, build and actively manage personalized investment portfolios of predominantly marketable securities. Our dialogue with the chairman is always on call and continuous. This interactive approach not only increases the safety derived from diversification of assets, but opens heretofore closed doors to a myriad of investment opportunities in some of the greatest businesses in the world. Our strategy of investing in a relatively small number of businesses, supported by extensive business analysis reports on our findings, makes it possible for the businessman to get to know each business in his portfolio. Most find that such familiarity relieves much of the separation anxiety. Where once time was money, we make it possible for money to make time.