MY MILLIONAIRE FRIENDS: COACHING CALL #9
Millionaire Ownership

SM: Hello and welcome! This is Sheri McConnell, president and founder of My Millionaire Friends dot com, and that's www.my-millionaire-friends.com. And thank you all so much for being here today and/or listening to this coaching CD. We are on our coaching call number nine. We have four more weeks left in this program, so I'm very, very excited to present the information this week. I really feel like this information is going to give you an edge in some of the stuff that quite often people struggle with when they are running a business today.

I struggled with how much information to really give you. Because what I know that this was for me, as I've grown my businesses over the last seven years, this was the area that I had to really just force myself to spend time on and really honor myself with this type of information. It wasn't something I really enjoyed. But I knew from the people I was surrounding myself with, women like the Women's Leadership Exchange are really, really good on this finance part. They are really, really good about surrounding women with this bigger way of thinking in the financial area. And I had just never been exposed to that before I started going to their conferences.

So what I can tell you is, my strategy is to plan this time in my schedule. Your financial planning time for your business and your personal life. And to plug it in on a slow day. For me, my slow day is Fridays. Mainly because that tends to be the day that everybody else takes off. At least from sending so much email or doing joint ventures and different things like that. So Friday seems to be the day that I can schedule into my calendar consistent types of appointments.

You also know from us having discussions before that's also the day that I spend an hour working on my operations manual. And there's always plenty to update or to add to in that manual just to keep the ongoing information organized. An hour just flies by, you all know that. So an hour is also the same day that I spend looking over finances, paying any types of bills. You know, some week's that hour is spent paying my affiliates. And so it's the type of thing where I do a lot of finances, not so much the bookkeeping but the overall strategy and you know, right now I'm looking for a new CPA. So it's that time that I spend doing a lot of the things that we're going to talk about on the call today.

So the topic today is called Millionaire Ownership. And the focus is on finances. And it's on knowing your net worth and building business equity. So we're going to talk about in this equity piece second. We're going to talk about valuation and I'll define that and I'll also give you some ideas on that and we'll talk about that and definitely answer some questions at the end.

But we're going to start off with your net worth. And many of your, if you've met with financial planners or if you continuously do that on an annual basis, you've heard of net worth before. So a lot of information may be definitions that you already know. Really, this call is what I found when I'm working with, especially the type of women that I attract a lot into my companies, we're really, really good about the creative stuff. We're really good, a lot of us are really good about the marketing piece because it's creative in a way. But we're not good about embracing the new language of financial planning with our businesses and our personal lives. So that is why we are here, talking about millionaire business ownership this week. To make sure we get a lot of this knowledge in.

So some of my tips as I believe to tell you many of these definitions, if you're not already at a point in your life where you've been doing this type of work in your personal life, what I want to say is don't get overwhelmed by the information today. If you start to kind of feel like, "Oh! This is too much. I don't want to learn anymore of this," know that the CD and know that the transcript will be there for you moving forward. And so when you're ready to plug back in, maybe that's six months from now and you're ready to plug back into this particular subject, this will be there for you.

And so do, don't dismiss it right away. If this just gets too boring and you think you will never be able to learn all of that, I don't want you to get into the overwhelm when you start to shut down. So I'm really trying to prevent shut down once we hear this topic today. That's kind of a place when I'm coaching people, when I used to do one-on-one, this would be an area where we kind of got overwhelmed and my clients would get a little frustrated and start to shut down on me.
I want to make sure that I state that.

Then again, the second strategy is schedule in an hour a week on a slow day to manage your net worth and look at the financial side of your business. If you're better about doing that with a team member and a strategy-type person, then schedule some accountable partner to do that with you. Whatever it takes. If you're better about working in Starbucks, then do whatever it takes. But you'll have more success with your overall business. You'll know what your expenses are. You'll know a lot of the key things you need to be looking at if you're doing it on a more consistent basis, obviously. And so that's the benefit of that strategy of scheduling it in on a slow day.

And let's start off with knowing your net worth. And first of all, let me define that. A net worth statement is a snapshot of either a personal net worth statement would be an individual's financial health. And then a business net worth statement is the business' financial health. And it's actually a snapshot of that in any particular point in time. So it's a summary of what is owned, which are called your assets. Less what is owed to others, which is liability. Excuse me, it's a summary of what is owned. My cat is sitting here, walking on me. I apologize! It's a summary of what is owned, which are your assets. I didn't think that sounded right! I thought, that's not an asset! Minus what is owed, which are your liabilities. So hopefully this makes a lot of sense to each of you.

And so the formula is assets minus liabilities equals net worth. And so what I would like for you to do, if you can't do that today because it's too insane and you have too many things to get done, find that hour this week and the first thing I want you to do is google "net worth calculator." And what you're going to get is hundreds and hundreds of different forms will come up for you to enter in different amounts and when you click the button, it will calculate your net worth. And so I want you to block out an hour this week and just start to play with knowing this type of information.

This may be something you're doing with a financial planner already. But if you're not, this is a way you can go ahead and start blocking out that time and start being more aware of what your assets and your liabilities are in your life. So if assets are greater than the liabilities, the individual has positive net worth. And if the assets, again what you own, is less than that your liabilities, then the individual or the company has negative net worth. And so, as you can imagine, your primary goal is to have positive net worth.

And so it's a process. This is something that once you become educated and you start to become aware of this financial lingo and the different ways that you do this, over a period of time, you begin to go through this system and the process of developing a positive net worth. And so some of the reasons, there are actually four different reasons that we often prepare a net worth statement. So one of those reasons that I've talked about is on an annual basis, and that's to keep score.

And so what preparing an annual net worth statement, what it does is it allows you, the individual or the company, to keep and track the progress of meeting your longer-term financial goal. And so ideally, again, your net worth should increase over time. The second reason that you might want to prepare a net worth statement is a planning tool. And this is one of my favorite reasons. Mainly because I'm doing so much with so many companies and because I'm delegating so much. What that does is it helps me look at things that aren't profitable. Let's me look at what I'm spending to keep that company running. It lets me really try to streamline a certain company, make it more turn key, do away with printed things, lower fees, you know.

All of those different types of pieces that we've talked about as far as running your companies. Your pricing and your marketing.

This is where I actually get to the see the numbers. So it's a great planning tool. So the net worth statement also serves as a planning tool and you can review the net worth statement. And what it does again is it allows to look at the liquid assets, and I'll define that here in a minute and it also helps you look at when your investments are too heavily concentrated in one area. So again, that's a big overview picture to use as a planning tool. And you can drill it down when you start to look at your profit and loss statements too, which is something more about what I was talking about with the planning tools that I use to really fine tune my companies.

The third reason that you might prepare a net worth statement is that lenders may ask for it. So sometimes an individual's net worth is a common question on loan applications. Depending on your credit score, they may need to see that. I know with our first house, we had to give them every piece of paperwork we could possibly come up with. By the time we bought our sixth house, they didn't even need one piece of paperwork. So it's a very interesting thing!

College financial aid programs. If you have children you are sending to college, that's another reason you're going to need to pull these net worth statements. And then for certain types of investments. The fourth reason, as you move forward and you begin to do a lot of what Loral talked about, remember, one of our first speakers in this coaching program? She talked about you developing cash from a cash machine and you take that cash and you invest it some other types of properties. Well, some of those are high-risk investments. And they are going to require the investors have a minimum level of net worth before they are allowed to invest the money.

So there's many reasons why you're going to want to kind of keep up with your net worth statement. Again, if you're working with a financial planner, they will usually have tools on their Web sites for you to do this. You can also google it and there's a lot of resources out there to do this yourself. So what I wanted to do at this point, is I wanted for some of you who may just be going, "Okay, what are assets? I hear you saying it and it sounds simple," but I want to dig into that a little bit better because I am not an auditory person. I'm a visual person. So I want to make sure we get all this information in the transcript for you visual learners.

And then secondly, I have to hear things seven times – ten times – for that true learning process to happen. So I really want to go through it and define some of the definitions that you will need to know as you move forward in your company and become more accustomed to talking this language with

your team. And with your spouse, even. This is an area that I wish, sometimes I wish my spouse were a CPA or something, so you would know all this and I wouldn't have to deal with it all. But – that is not the case. So! So I'm learning all of this on our behalf and instructing him and trying to motivate him to learn it with me. And we focus our team on the strengths that they can. And I can definitely focus him in some other areas where his strengths lie. And sometimes, our spouses are our team member whether they like it or not, so…

So the first definition is assets. And all asset categories, except cash or cash equivalent, a realistic evaluation of what a willing, knowledgeable person would pay for an asset in a transaction is how you evaluate that. So when you're looking at an asset, you have to really be realistic about what someone would pay for that. Not what you think it's worth. Not what you purchased it for. But what the going rate is. With cars, I think that's the blue book value. I'm going to take a quick drink of water.

So with liabilities, which is – remember, it's assets minus liabilities equals your net worth. Liabilities, you know, sometimes that's contacting your loan holder, getting those pay-off amounts so it could be your car. It could be all of the different things that you have a loan out there on. Things that you still owe money on, business-wise and personal. So usually contacting a lender and getting the current balances on those accounts is the best way to go down the list and figure out what your current liabilities are.

One thing that I do is I have an ongoing Microsoft Word form that we just keep updating and it's kind of our financial plan, how much cash we want in reserves for emergencies, which they say four to six months. The same with the current housing market, to go all the way six months to a year. And it has the order of how we're paying our debt off. It has on there the overall plan for our kids' college investment. And so every month when I go to pay all of our bills, that is again in front of my face. Mostly for review. And I often send that to my husband while he's at work because I find him a captive audience while he's at his desk at work! And so I send them and have him read over those things. And that's our process.

So mostly what I want to say with you is develop a system and a process for making sure that you revisit this information over and over again because you know if it gets ignored, you won't move forward with these things. And it will take years. And what this does is it sets up a solid foundation for you to grow your business. Because these pieces are put in place. And as you know, many of you will be on the call tomorrow when we have Garrett Sutton and he'll be talking about the entity structures in incorporating your company. And so you'll have lots of really great questions for him, I'm sure. But that's one piece of it. And that's really in relationship to what we're talking about today. All these pieces need to be in place.

And it's one of those hats that you get to wear. And you can bring on team members to help you with this stuff but you are going to be the leader of this process. You are the leader of all of your financial planning so you have to be able to speak the lingo and the sooner that you do this, the more successful you'll be able to run your companies.

So the next definition, I want to talk more about the different definitions that you will see as you begin to fill in those forms when you Google them. So liquid assets. Now what liquid assets are, those are cash or other assets which can be converted into cash. So these include your cash in your checking or savings account. It might include CDs or money market funds or any kind of short term treasury security. It can also be money that people owe you. Debts that are written in an agreement where people owe you money. That would be another liquid asset and then a life insurance cash value. This is a whole life policy where you can cash that out and it becomes a liquid asset.

So when you're beginning to fill that in on some of those forms and you start to try to figure out your net worth, not only your personal but your company, that is some of the definitions of liquid assets.

Personal use assets. And this one can be confusing. I know when we were figuring out our net worth, we weren't sure if we were supposed to count some things or not. And we had to go back to our financial planner. So home use assets. This includes your furniture, any type of furnishings, household goods and appliances, sporting, hobby equipment – that includes your workout equipment. So on and so forth. Autos and other vehicles. This includes motorcycles, boats, airplanes. All of those different vehicles that you have. Collectibles. That would be your art and your antiques. Any of those things that have potential investment value as well as personal interest value.

Now here is the piece where it really pertains to this class. And this is investment use assets and these are more of your business-related types of assets. So this is business and investment. So equity assets. These would be things such as your stocks, your stock mutual funds or any other investments based or stock market investments. When you speak with Garrett tomorrow, some of the things when you get into incorporating, there's a whole nother world to learn. And you heard Loral speak earlier on in the program. Learning this new world is what allows you to take advantage of the rules of the wealthy and it allows you to set your companies up in such a way that you can take advantage of a lot of those tax benefits and the different statuses and he'll get into some of those pieces tomorrow.

So what I can tell you is you're going to have to have an understanding. But you can see right away when I start talking about these different types of assets that you're going to have to get some really qualified team members to help you along this journey. Because when you are in those different corporate structures, you want to have a team member that understands the benefits that you're allowed to take within those corporate structures and especially how that pertains to your assets.

So with six-figure income assets, this includes bonds, bond-based mutual funds, preferred stock and other investment based on bonds or bond-type assets. Investment in real estate. That's self-explanatory, refers to real estate purchase for investment rather than for shelter. Because we own rental properties and different things like that. I was watching Robert Kiyosaki and his wife on a program the other day and one of the things that she said that she was, I believe her name is Kim, was they followed the Monopoly game, where you buy four houses and then you sell those four houses and you get one hotel. And she said that was essentially what they did and she really focused on that when she started learning about real estate investing because she found it fun.

And one thing Loral talked about early on in this course was that: focus on something you enjoy and learn as much as you can about it. And begin to profit from that and then move on to other things once you get your cash machine going. And so she, Kim, Kim Kiyosaki just kept talking about how she just really enjoyed real estate and so it was easy for her to get immersed in it and learn what many, many other people just didn't enjoy learning.

Business interests. That's another investment use asset. And this includes the equity ownership of any business in which you actively participate. So on that one, we are going to be talking about evaluation here at the end of the call and building your business equity and why you might want to evaluate your business as you begin to build it. Or at least know that a few years into it, this is something that you want to be aware of and look at when you want to move forward.

Okay. Commodities. These would be other types of investment use assets. Commodities are things like gold and silver and other precious metals. Also gems. And there's something called a commodity contract. Another investment use asset is vested portion of your pension plan. This refers to the amount to which you are entitled to, even if you quit today. So if you are one of those people on the call who are still working for a company and building your business at the same time, that might be an asset that you have in place right now. It can also be something that can be used to build your own business if you decide to cash out on it.

And then the last investment use asset is IRA or some of your other investment plans. And those include the current market value less any of the taxes payable. And there are a lot of different rules based on income and different things that depend on what type of investments you can actually develop in that area. For instance, Roth IRAs is, I think, only up to $166,000. So there's a lot of different things. You're going to need your CPA. You're going to need your financial planner to understand some of those pieces.

Okay. So let's define some current liabilities. And this might be easier for you all to understand because unfortunately, sometimes we have more liabilities than we do assets. But again, that's why we're here. Learning this new language that we weren't taught in school and really starting to embrace ourselves and some of the new things we are going to learn to change our mindsets.

So current liabilities refers to bills which are due today or within 30 days. So that would by your rent and your utilities. Only include those for the current month. Credit and charge cards. This includes the total amount due even if only minimum payments are made. So that would include everything that's due, not just what's due this month. Taxes. This includes income and property taxes that are due today. Now you wouldn't include that if you have a mortgage or a monthly payment where those taxes are included in that payment. Because you already counted that.

The next definition would be the current portion of your long-term liabilities. So this refers to, for instance, the car loan. The different things that are your long-term liabilities. Loans that you're paying off. You would count those current liabilities. That would be that payment that's due today or in the next 30 days. Now, those are current liabilities. Your long-term liabilities are the liabilities that are typically paid over an extended period of time. So that would be counting the full payment.

So what you'll notice when you go, it's just depending on what resonates with you when you google your net worth calculators out there. You know, shop around. Look around. There's a lot of free ones on there. But there are some that are definitely easier than others. If you're new to this type of work. Doing this type of planning within your life and your company, get the simpler ones and play around with those first. And make sure to have your list to spend a month or two months searching for the financial planner that resonates with you that you could grow with and start to get more details with some of this work.

Because there are definitely – when I was looking around, there are definitely tools out there that are easier and I would rather you feel more successful at getting a picture of this with some of the easier tools than getting more detailed with it right away. I'd really like you to have a professional to help you with some of that, especially when you start getting into businesses and you're incorporating them. You're going to need some help on those pieces because we talk about with team. You really want to pick team members who play at what they are good at.

And if you're not good at this, if you don't do this type of work for a living, then you don't really don't need to be doing it all by yourself. You will be managing the team. You will be asking questions. You will need to get an understanding of some of these terms and be able to know what people are talking about if you are in meeting. That does not have to happen today but it will have to happen eventually for you to keep growing and moving forward.

So, since I brought up your financial planning team, what I recommend is you meet with them annually, usually around tax time is the time that this is often done. Some of the type of the people that will be on this financial planning team will be your estate planning attorney. This is the person that drafts your wills and your trusts. Your tax professional. That's your CPA. I am working with my CPA all year long, usually quarterly at the very least to get the different forms that have to be done. Sometimes it just depends on what I forgot about or what she forgot to remind me. And we are trying to set up better systems for some of those things. Again, that's where I told you, I am looking for a new CPA because I really want one more proactive that's a little bit better at that. So she's the type of team member that can remind me and let me know those things ahead of time. Your financial advisor – your financial planning expert. That's another person you'll need on your team.

And then finally – you're the captain of your team. So the financial decisions must be made by you after you review all the recommendations of all these members, all these team players on your estate-planning team, your business-planning team.

So I hope that that is helpful information. Let me take it off the lecture mode real quick. I want to see if there are any questions before I start about your business equity and valuation. Okay. We talked about a lot of different definitions there. Does anyone have any questions there? Hello?

AM: Sheri? I have a question.

SM: Aha?

AM: In terms of the CPA, do you find that one person versus having a tax person and then an accountant to be useful?

SM: My tax person, I mean, my CPA that I currently have –

AM: Does both?

SM: She does not do both.

AM: Okay.

SM: But I'm ready to be done with her also because there's also been lots of issues where she doesn't think she dropped the ball but she did…

AM: Right. Finding somebody proactive is –

SM: Right. And important to do with everything that we do. So this is just – I mean, I think this is so much more important that my Web sites being done correctly or my marketing being done perfectly or all those other things that I've talked about in my companies. This is the piece that it just has to be done diligently and on time and there's just little room for error, in my opinion. So this is the piece that I really, you want to spend some long-term time looking for those team members and also, we've met with financial planners. Because a lot of the people that we have in place are people from when we lived in Dallas/Fort Worth. When we moved two years ago, we now live in San Antonio. We were really trying to localize our new financial planning team.

AM: Right. So you feel that local, perhaps, is better in terms of a financial team than outsourcing different states, etc.

SM: For us, you know – this is everybody's personal decision and also you're the visionary and the one running the company, so you've got to go with your own gut. But we were just really feeling like that accountability isn't there and the relationship isn't there like it could be if that person were, you know, 20 minutes away and I could set up an appointment with them next week?

AM: Right.

SM: You know, we just have a hard time even getting face-to-face with these very, very important people on our team. And that's just not acceptable for us anymore. And we've just been and – you know, this again stuff you're going to come up with too. Some of you may be much better at this than I am. But when something's working okay because we have so much other stuff going on, I tend to let that go. And my husband and I were discussing, this is ridiculous that we're not being more proactive in some of these areas that that can really make life a lot easier.

AM: Sure.

SM: So that's kind of how we're viewing that piece. But it's hard. I mean, you get so much information coming at you when it comes to finances. You don't know just to believe anymore. You hear Loral say something completely different than Suze Orman.

AM: Right. I noticed that.

SM: You hear David Bach say something completely different than both of them. So it really does come down to your personal choices and what I think – and that's just me saying another thing – but I think that it just shows that you have to be really diversified in your choices of how you're setting up your security long-term. Because you can't count on just anything. It's just like marketing. If you're just sending out an email newsletter and they do away with that ability to do in a couple of years. I doubt that that would ever happen, but, if they really, really tightened those laws, you know, more than they are today, you're all a sudden going to be needing to do direct mail.

AM: Right.

SM: And if you're not doing that, that's going to be a new expense for you. So if you're diversified and you're doing a bunch of different things right now, you're going to have a much easier time keeping your business on track than people who were just relying on one strategy and the same with your finances.

AM: Thank you.

SM: You're welcome.

AM: Diversification seems to be the key.

SM: Oh, definitely. And I'm really good about even with a CPA asking for specific dates. If she says "Call me on Friday," I ask for an appointment. You know what I'm saying? And – what we've decided is – this person we've outgrown. And that our financial planners are meeting with new ones and they are way above where we are and that's kind of intimidating but that's also the point, right?

AM: Sure. Finding somebody who understands the Internet and the way these kind of businesses run too.

SM: Right, right. You're gonna love, I just know you are going to love and adore Garrett tomorrow when he talks because he really does present the information in such an easy to understand way. So I am really looking forward to you all hearing him tomorrow. Okay? Any other questions? And thank you for those good questions.

AM: You're welcome.

SM: Nope. Okay. Let's move forward. And again, write down your questions. I'm going to put us back on mute. Okay, so here is one of my favorite topics and its business valuation and building business equity. And if you remember when we talked about the six business models, I talked about the main difference between creating a membership business which is the types of businesses that I have and then the network marketing was that equity that you wouldn't have with the network marketing but it would also give a lot of people a great ability to do some cash flow building within a business structure and learn a lot of skills for very low cost of learning those skills.

But unfortunately, you wouldn't have equity unless, you know, you got in some strange relationship where you built a network marketing company from the ground up and you had some actual stock in that company. That's kind of a different situation. But for the most part, network marketing, you wouldn't have that. So when I first learned about the term valuation, and again it was with the Women's Leadership Exchange and what I found very, very interesting right away was the membership-based business model was actually one of the easiest kinds of companies to valuate. Depending on if you chose to valuate it based on the membership.

So let me go ahead and define that and then I'll tell you an example of how you valuate membership-based companies and we'll also talk about a few myths of valuation also. So understanding the factors that determine the value of any business, what this will help you, this kind of information that we're about to talk about, what that will help you do is it's going to help you focus on ways to grow your company and to understand how to create a long-term profitability with this company.

So for instance, if you choose to sell your business at some point in the future, this knowledge that we're going to talk about – and then we're just going to touch it today because there's a lot of different ways to valuate companies. There's a whole science and pseudo-science even and an art form to valuating companies. I like that there's a very simple process for membership evaluation because it makes it easier. But with different types of company, and there's just so many, if you google that term also, you'll see that there's so many different ways to valuate your company. There's market value. A number of other ways.

So what I'm going to try to convince you of today is just really understanding that this is something you will want to look at going forward. Give you a few of the exciting reasons to embrace this concept and to learn more about this and get more details with it later. Again, I don't want to overwhelm everyone with too much of the detailed financial information today. I want you to dig in with that professional when you're ready for it.

So if you, again, if you choose to sell your business at some point in the future, this knowledge will help you position your company to receive the highest price. And one of the things I learned with Garrett when I listened to him a long time ago and had him come to speak for this program, was that if you are trademarking and registering your name of the business, it actually gives your company more value because that's something that the person purchasing it doesn't have to do. So just little things like that will increase the value, and that's in the incorporation part of some of those pieces and he'll probably talk about that on the call.

But there's lots of other things for you to look at. So when you begin to understand what business valuation is and it's valuation, not evaluation, under what circumstances valuation is customarily completed, and then the critical issues to watch out for when certain events dictate that you undertake this valuation process. So first of all, what is business valuation?

It is a process or act of determining the value of business. That's the simplest definition I could find. And I wanted this to be simple for you. So when you go to, excuse me for clearing my throat so much, when you go to sell your business or at any point in time if you just want to understand the value of what you're building, that's very useful information. At one point, I was planning to sell NAWW and that's when I learned a lot about valuation. And I did actually prepare proposals and reports and shopped it, if you will, to a couple of different companies that I thought would be interested, and we had meetings. And of course, as many of those types of meetings unfold, people lose interest the farther in you get because it comes down to them actually buying it.

But the whole process was really amazing and very great. I ended up taking the company, totally reinventing it and keeping it and moving forward with it. But the process of going through that was such a great learning experience for me. So for instance, membership-based businesses? One of the strategies in ways that they valuate membership-based businesses is to take your current dues, what you charge for dues, times the numbers of members you presently have. So with NAWW, that would be around 3000 members, people are renewing and not renewing all the time. Times $127. Our current dues this year are $127. They were $120 last year. We raised them by $7 in 2008. So 3000 times $127 makes the National Association of Women Writers, according to this valuation model, worth $381,000. If I were to go and sell that.

Now there’s other factors that I would begin to factor in. I would have a CPA prepare all those financial documents that you would go through with this process. And you would most often have, I think, you always have an attorney involved when you get farther into the relationship and you have a serious person who is wanting to buy it. But I would also have equity in all of the information products that I’ve developed over time as related to the National Association of Women Writers. We have many, many CD programs and transcript programs and other types of home study courses there that each have value and I could choose to keep all of those and not sell them with the company, or I could raise the value of the company and put that in as equity.

So those are some of the things that you begin to negotiate. So I really want you today to see as you develop your information products and you begin to have to purchase a graphic form. And that graphic costs $800 or you have to have an editor go through with a fine-toothed comb. All of these expenses increase the value of what you re putting out there.

So begin to think about what you’re building here and as those expenses climb and get kind of intense, remember to look at this long-term picture of this equity that you’re building. And this is business. This isn’t a hobby. You are investing in a business. And so I really want you to see that when you begin to understand how valuation works out. And that’s a very simple example. And I like simple. When I was doing all my proposals, that’s the way I did it from the information and the research I had done and the people I had talked to.

Now, again, I liked that there was a simple process for membership-based business. You get into some other types of businesses out there. From my research, it gets a lot more intense. There’s a lot more that they take into account. And again, there’s lots of professionals out there that will help you with that. So I thought it would be helpful also on this call to discuss a few valuation myths. And I actually found these from an associate professor of finance at Bentley College and his name is Dr. Stanley Feldman. And he had a number of myths.

And I wanted to share pieces of this. This is a paraphrase, of course. Some of the things that he brought up. Because I just thought it was so interesting. So one of the things he talked about was valuating a private business should only be done when the business is ready to be sold or under, you know, a loan that requires that valuation be part of the due diligence process. So what he says is that's often a myth. I think it's when people really do most often do it. Because you just do it out of necessity?

But what he says is that, if a business is to have a life beyond the current owners, you would be you, an effective planning for ownership transition requires that you regularly valuate the business. So that's kind of what Garrett was talking about. If you're looking long-term and you know that you're eventually going to sell this business, if that's your overall plan, what they often call your exit strategy. It makes sense that you would do that extra investment of, you know, trademarking your name. It makes sense that you would do some of those things. And that's why it can be so powerful to do that really hard work that a lot of people don't do, which is to look at yourself five years and ten years down the road. And what do you plan on doing with the company? What is your exit strategy?

Exit strategy was also something very, very new for me when I first started my company. Excuse me. And I just didn't really even think about that piece. I was too concerned about growing it and getting it off the ground. I wasn't concerned about what I was going to do with it down the road. So I felt really grateful that I came across that information and started to realize how important it was to start learning this other world that I had never been exposed to in college. You know, I had two degrees and I had never even heard of these things!

So, I just find that so interesting. Ownership transition also includes gifting of some percentage of ownership shares to family members during the owner's life. And what that does, is it reduces your taxes on the owner's estate. So that's another reason you want to continuously valuate your business if you are going to be passing this company on to your family. There has to be value. The value of it has to be taken or they won't be able to do that transition smoothly. So that's one of the first myths that you would only do a valuation when you are going to sell.

Another myth is how much a business is worth depends on what the valuation is used for. And so he shares a little story here and I'm going to share that with you. Hold on one second. The value of the business is its fair market value. And according to the Internal Revenue Service, this is what a willing buyer will pay a willing seller under no pressure. And so while they may be a fair market value range, the wider the assigned valuation range, the less reliable valuation is. And so, what the examples he gave was consider the example of a parent selling a business to a child.

The incentive to assign a low valuation is significant is what happens when the parent says this business isn't worth a lot and they pass it on to the child is that the parent pays less taxes. And so alternatively, if the owner of a business is going to make a charitable contribution of company stock, for instance, in that case there's a significant incentive to place the highest possible value on those shares because this would result in a large charitable tax deduction. So what the IRS is always looking for is those types of valuation where the red flags are up and the worth is being fluctuated and the range is too wide because of those types of examples that I just gave you.

Another myth he talks about is your business loses money. So if it's losing money, it's not worth much. So this is the piece that I find really interesting and it's the piece on the side of once you incorporate and how, when I was a non-profit, I paid myself a salary and I totally had to have so much help in that area to manage the taxes because non-profits are the hardest structure to run from my opinion and from talking to other people, I did not know what I was getting into. Many of you all have heard that story, so.

Most private businesses appear to lose money. And appearances, however, are often misleading. So one example he gives is, "not long ago, a friend of mine was considering buying an auto parts business in California." And he said the asking price was approximately $950,000 and according to the firm's tax return, he hardly made a profit. Like many businesses of this type, this business was generating a great deal of cash. But the cash was masquerading as legitimate expenses.

So one expense category really stood out, and that was payments to the officers, those directors on the board. And this payment included the owner's wage of $80,000 per year and a bonus of $150,000 that the owner paid himself at the end of the year. And so the $80,000 wage is what the business would have to pay a stranger to do the same job as the owner and that was a real expense.

The other $150,000, on the other hand, represents what finance people call a "return to capital." And it is the cash that the business generated and it is this cash that determines the value of the business. Cash is king, is often the term that you will hear. So what's interesting about that, when you're operating a sole proprietorship, and Garrett will get into some of this tomorrow. And then it's really your job to learn as much as you can about your certain business structure and to use the tax code that Loral talked about, and really work with your CPA and learn all of these things because this is what allows you to build your wealth, it's by taking advantage of the rules that are there for you to create these thriving businesses.

So again, get help. Develop this ongoing relationship with your financial planners. My goal with this information today was really to talk about some of the topics of how millionaires own businesses. It's much different than a lot of people who decide to start a business, they stay a sole proprietorship and they really begin to just run a hobby that is sorta/kinda of a business and not really a business. So by understanding some of the things we've talked about, you should be able to successfully look for people on your financial team and understand that this business that you're looking forward to building is an important asset in your overall net worth and what you're doing.

So at this point, I want to take it off Q&A again and see if you had any questions about valuation. We talked about that from a very high level. But it's also, you can dig into that much, much deeper with research on the Internet of course. And there's lots of different books out there on the subject. Really depends on the businesses that you're growing and seeking out professional help that you need when you are valuating these businesses.

Again, work with a financial planner to see how often you should valuate your business. At a very simple level, always have a good idea of the assets that you are building into that business. For me, it's a lot of information products and it's the value of those members that I've brought into that company. So hold on one second. I'm going to take it off mute. Okay, do we have any questions on the second half of the call?

AM: What's the name of the doctor that you were quoting, Dr. Stanley –

SM: Feldman. F-E-L-D-M-A-N.

AM: F-E-L-M-A-N?

SM: I'm sorry. F-E-L-D?

AM: F-E-L-D?

SM: M-A-N. Go ahead and push star 6 if you have outside noise. There we go! And he's the associate professor of finance at Bentley College. I just thought that was really interesting. I think it's such an interesting subject. And there's so much information on the Internet. I mean, before the Internet, how did you get your company valuated? You know? You had to, before people would even talk to you, you had to pay them money. So there's just a lot out there. I love that people are willing to share basic information that at least gives you an idea of what you're building. So I think it's phenomenal.

AM: And is there a way to find information on structuring a business? Even a membership business? Like, not how to do it but what to do? Set up your, incorporate your business. How do you develop a fair market value of the business as you're going along? I mean, where you – what kind of way do you set this up. You've given us information on a membership, but is there a book or is there –

SM: It depends on your different business models, definitely. And I've given you the example from the research that I've done with membership-based businesses. I think tomorrow, you're going to have a lot more information on all the different reasons that he advises that you should incorporate and the different ways that you can incorporate depending on your different model. And so he gets into that. He also talks, like in the last call when I heard him, he talks about the trademarking piece. Lots of different things that gives your company more value in the way that you set it up. And so he definitely addresses that piece on the call.

I'm also going to be sending you the book. The incorporation book. I believe, *Owning Your Own Company* I believe is what I'm sending. I'm sorry – I'm not in front of my computer and I can't remember –

AM: Yay! When do we get this one?

SM: You'll get that one at the end of March, I believe.

AM: Yep. At the end of March. Okay.

SM: That's the March calls. And then everyone who is in the live program is due for the February stuff this week, too. At the end of each month, we send those out. So you'll also be getting the book. So there's definitely lots of resources. And as far as valuation, again, it's one of those things out there that you could find so many different ways that its done. And even if you google it, you're going to see that you can do it according to fair market value. You can do it based on pure equity.

So it gets into lots of different ways that you can even choose to have your valuation done for your particular company. So its very interesting and its one of those things that isn't black and white and not very clear as far as all the choices you can have. And that's just like investing in general. That's like Social Security. There are no guarantees with a lot of what we can judge on long term. Because nobody knows exactly what's going to happen 20 years from now.

AM: And how do you set up your exit strategy?

SM: Again, that's working with a financial planner. Who has expertise in that area.

AM: How do you find one that has expertise in exit strategy information?

SM: You have to ask around with other people who own businesses locally. That's what we're doing. We started with our neighborhood. We started with financial planners. And, you know, larger companies. And you can find small people, you know, CPAs who are doing this out of their home. You can find just any level of the type of company. I want to choose a company that will grow with me and is already bigger than I am. I'd rather pay more for the services because I know that the money I pay to them, I'm going to get back in their knowledge of what they'll save me. You know.

AM: Right.

SM: I mean, and that's true with any of the professionals that you'll dig into. David Bach, Suze Orman, all of them. Suze Orman, if you go to her Web site, I believe that she – I want to say she has a product on there that, once you get the CD and you put it in, will let you dig into attorneys around in all the states or – I could be wrong on that but that might be just for your living wills. But I remember reading that in one of her books too.

So all the information is out there. It's a lot of research on your particular, your company that you're building. And I really just want people to be aware of the types of information and really be willing to find a financial planner, work with them a year. If they are not being proactive enough or if they are not educating you and you're not learning a lot of new things within that relationship, then you move on to the next one. And it's just like building your team like with the virtual assistants, your Web person and your assistant. Sometimes it takes six people.

I mean, I've heard Melanie Benson Strick and she's the guru on virtual team building. You know, it's taken her six people to get the right people. And that's kind of really hard for people to hear. That's a lot of work!

AM: It's a lot of work!

SM: It is. It is. And that's just one of those things you've got to be willing to do to live a life that's really different than most people. So, I mean, it's different in business and going to work for someone else. You know? You can go work for someone else and they are taking all the risk and you're not. You're just the employee who goes for a sum of money per hour or per year, a salary. So it's the difference between being a business owner. And that's why there's a lot more rewards for being a business owner. You're taking a lot more risk.

AM: Absolutely. I'm sorry. Thank you!

SM: You're welcome. You're welcome!

AM: Sheri, I have a question. In your learning how to do your membership, I have a question about comparative value of similar companies to help set your market value?

SM: Um-hmm…

AM: Is that ever used, the comparison of a similar company?

SM: Definitely. Definitely. So – and of all of those, when you go there and you google "valuation", "business valuation," actually. I put "business" in front of it. You'll actually get all the definitions and I had all of those for you, but I thought that would be just too overwhelming because they get pretty detailed!

AM: Yes. I just – I'm compared with Bach flower remedies and that's a huge, huge company. And I actually have more products than they do. So I'm looking at how to make that work in my favor for business loans, etc.

SM: Right. And so what you would do is that you would have the financial, usually I believe that's a CPA who would prepare those documents for you.

AM: Okay.

SM: The CPA might not be able to do the valuation piece. You might have to hire a company to do the valuation piece. But some of the documents that they would prepare. The, excuse me, the net worth statements and the different things like that would have some of the information.

AM: Okay.

SM: That is a saturated topic out on the Internet. And if you go to Amazon, there's just so many different ways you can go with valuation. I found that really interesting! So, definitely one of the things they do is look at other companies.

AM: Right. Because the Small Business Bureau, their advice as I have asked over the years, has been so non-innovative. That it doesn't really seem to apply. I've gone through umpteen CPAs.

SM: And that's because they don't want to take a risk. On that! I mean, it's free information usually that you're getting. So you're going to get better information when you're paying for it.

AM: Right. Right. I call forth the expert who knows we're not a hobby!

SM: Right. Right. And so, you know, really having an ongoing relationship and being willing to invest in what it costs to have a financial planner, even when you feel it's a financial stretch to have that relationship. That's the difference of thinking long-term. I really, just you know – and this does not apply to everyone – think of all the money we spend on things that don't do anything for us that we find important in our daily lives. You know, how much money do we spend on things that we collect or things that we do. And we just completely ignore the financial sides of our lives. And a lot of us do this.

So, it's a piece of our lives. And it just depends on our personality types and how we were raised…

AM: Right. I found that we weren't really taught.

SM: And that's exactly. And that's what you'll hear from all these people I'm having on – you know, all these speakers that are coming in. Most of them, Loral and different people that we're just – especially women. We're not raised to think like this. I sure wish my husband would think like this more because I really, it's not to our advantage that he doesn't.

AM: Right.

SM: Does that make sense?

AM: Yes, yes. It's the latte factor of things you buy that you don't really need.

SM: Um-hmm.

AM: That have a priority.

SM: Well, not even – even like his spending. Like I've told you all my strategy about the biggest house we could so he couldn't spend! So it made him, he totally agreed to it. He agrees that it's a good plan.

AM: When FedEx arrived today, I had the same thought!

SM: But what is interesting, is even if he were more proactive in the learning piece. Just in that piece. But if he were just thinking in that way and he's just not. And I've read this book *In The Meantime*, many, many years ago. And he read it too when we were dating. If any of you haven't read that. And it really helps you relax about the people and this gets totally off-topic. But I think it's always helpful. But it helps you relax about the people in your life, spouses and family, that aren't at the place that you need them to be.

And sometimes you feel like if I had a different person – I don't know if you all feel that way –

AM: Oh yeah!

SM: But if I had a different person, a different family member – gosh! I'd be able to do so much more.

AM: And who wrote *In the Meantime*?

SM: It's by Ilayana Vanzant. And believe that's I-L-A-Y-A-N-A and then Vanzant is V-A-N-Z-A-N-T. And it's a book about, you know, and she just goes through the different levels of a house and how we're at different levels in our mental capacity. And sometimes, you know, people in your life will be at different places. And all of us at different areas in our life are in something called "in the meantime." And that's our growth experience. And we have to be willing for people to catch up with us who, you know, to honor their learning…

And I mean, it's just interesting. So if all these years later we still talk about – when we are going through a struggle – that it's just "in the meantime." It's just the meantime, we'll get through it.

AM: That's cool.

SM: And so it helps. I mean, it's one of the few books that I could get him to read. But he read it!

AM: That’s nice.

SM: So anyway. So, as you are going through building your company, I find that that phrase just works for me in so many ways. As I spent the last four days with a kid who cried and wouldn’t let me put him down, he had a 102 fever for four days straight. It was “in the meantime.” And I’m running around and happy again today. So as you are building the companies and you are putting so much money and time into them and slowly you are getting the name out and slowly, different things happen where you get more brand out there and people start to know you exist. You’re in the meantime. And it just takes consistent, steady growth and takes you being aware of the cash flow of what you’re building and understanding, you know, that is does take money that has to be put into these to build them.

The business equity, you know – one of the things I said when I was incorporating the business and we were talking about incorporating under an umbrella or all four companies. Is it’s just money and paper, is all it is! You know? And then you’re done. You know? It’s like not that big of a deal if you want to just give them some money and they do all the paperwork. And then you just move forward. It’s not a huge deal. So it’s just funny how many of the things in wealth-building are just money and paper. And we’re just so afraid to move forward.

When you’re buying a house. You know, it’s just money and paper. And it’s that same kind of money you’re spending as a renter. It’s just your mindset flipping to be willing to think more long term. So it’s very interesting.

AM: Perfect.

SM: Any other questions? I hope this was a good overview. I hope this didn’t overwhelm. There’s a lot of, definitely there are a lot of different definitions that we don’t usually hear on a day-to-day basis. So I really wanted to give a good overview. Many of you, some of these terms might be – depending on how old you are, definitely – these might have been the first time you’ve learned of some of this today. So definitely dig into this stuff further.

There’s a lot of information again on the Internet. And it’s just really you plugging that time in on a consistent basis to learn this information at the rate that you can. So just honor your phase. And put it into your schedule. And start to spend time learning this new thing called “millionaire ownership.” And start to understand your net worth. Start to learn to build your business equity and connect with those people on your team. Start to put that team in place. Set some goals. Put some timelines around it, so.

By the end of 2008, I want to have hired these two people. On my financial planning team. And hiring, sometimes they don't even require money up front unless you actually have them do a service. But it may just be your hiring process, may just be your going out and meeting with five people so you have them in place when you are ready to move to the next step.

Okay, everyone! I hope that was helpful.

AM: Yes.

AM: Thank you so much!

AM: Thank you so much, Sheri.

SM: Okay, bye!

AM: Bye.

[End of Audio]