THE PRUDENT WEALTH PERSPECTIVE
FOR NEW YORK ATTORNEYS
Exit Strategies and the Risks and Opportunities in the Prudent Accumulation of Wealth
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Smart Transitions

> "I never dreamed about success. I worked for it."
> —Estée Lauder

Business owners, whether controlling shareholders, partners, or executives with minority stakes, often go to their {attorneys and other} advisors late in the game when they're forced to sell their business for health, financial, or other reasons. But the time to think about transitioning—whether you're selling a business, creating an estate plan, or just planning for retirement—is while you're in good health and business is strong. That way you won't be forced to make decisions under difficult circumstances.

Understanding Your Exit Options

Entrepreneurs have three basic options when it comes to passing along their business: You can either sell all of it, part of it, or pass down it down to your heirs.

METHOD	BENEFITS	CONSIDERATIONS
Gift/Succession Can be done while living or as an inheritance	• Control the timing • Control the amount • Possible tax advantages	• Heir may not want • Heir may not have the right skills • Tax implications
Partial Sale You sell a minority or majority stake in your business through private equity, growth equity or mezzanine financing.	• Liquidity • Lowers risk concentration • Retains a stake • Eliminates personal guarantee	• Timing is key • Planning is important • Business strategy and lifecycle impacts exit strategy
FULL SALE You'll sell the business to a qualified buyer or family member.	• Buy-sell agreement can guarantee a sale • Can sell to the person of your choice, including children	• May not be able to find a buyer • Will need sufficient funding

• Can be used in conjunction with lifetime gifts if sold to family • Estate can sell the business after your death	• Children may not have resources to buy at full value • The business won't be part of lifetime gifts or inheritance • Buy-sell agreement can guarantee a sale

Preparation is the Golden Key

You've spent years building and nurturing your business. There were days when you wore too many hats and ran out of time before the to-do list was done. You have seen firsthand how hard work pays off. And it was worth it. The same can be said for when you're ready to let someone else take over. The work you put in upfront makes it that much easier to hand over the keys when you're ready.

Regardless of how you are passing on the business, you may need at least two to three years to fully prepare a business for new leadership if you are not planning to continue in a leadership role. Likewise, in the years before a sale, you want to make your financial reports pristine, maximize margins, explore growth opportunities, and possibly grow through acquisitions. After all, a larger, more profitable business with clean financial records gets a higher multiple.

Proper preparation is the key to maximizing the value of your business. It will also help the business run as smoothly as possible in a transition and make it a rewarding purchase for the ultimate acquirer.

Hiring a Trustworthy Team

Transitioning a business can take years. You'll want the best and brightest with you along the way. Among them: a mergers and acquisition attorney, estate planning attorney, tax professional, financial advisor, and an investment banker or business broker (depending on the size of the business).

These professionals can work together to guide and support you through the transition process and produce a comprehensive view of your business's tax and legal obligations. They can also help determine how the full or partial sale may affect your personal finances, liquidity, and plans for retirement.

Planning Ahead

If you would like to learn more about how we can help you prepare to sell your business or organize your finances for a comfortable, confident, and stress-free retirement, please visit my calendar online at Calendly or email me at Randall.Watsek@RaymondJames.com for a free consultation. The earlier you start planning, the better prepared you'll be.

Key Wealth Principles

- A foundation of good habits is more important than fancy techniques
- Invest in quality businesses at an attractive price
- Build a portfolio of good businesses in different industries
- Maintain appropriate reserves and income sources
- Consider your financial circumstances, goals, and risk exposure

Last Month's Winners and Losers

Winners	**Losers**
Growth	Value
Momentum	Long-term bonds
Bit-coin	Regional banks
Theme stocks	Utilities
Semiconductors	Gold and silver miners

Last month favored the fanciful, with strong performance in crypto, theme stocks, growth, and momentum. Stodgy stocks were stuck in the mud, with weak performance turned in by value, regional banks, and utilities. Long-term bonds also lagged as rates rose for the month.

Stocks

	S&P 500	**Dow Jones U.S. Select Dividend**	**Russell 2000**	**Bloomberg US Long Treasury**
1mo Return	5.3%	1.3%	5.7%	-2.3%
YTD Return	7.1%	-0.5%	1.5%	-4.4%
10yr Return	12.7%	9.1%	7.1%	1.2%
20yr Return	9.9%	8.0%	7.9%	3.7%
30yr Return	10.4%	10.7%	8.5%	5.3%

Source: FactSet as of 3/3/2024. We use the S&P 500 index as an illustration of the performance of large cap stocks, the Dow Jones U.S. Select Dividend index as an illustration of the performance of high dividend stocks, the Russell 2000 index as an illustration of the performance of small cap stocks, and the Bloomberg US Long Treasury index to illustrate the performance of treasury bonds with maturities greater than 10 years out.

The market continued to be led by big tech stocks, theme stocks, and other risky assets. It feels a bit frothy in those areas and I am starting to be concerned about a bubble in certain sectors. Keep in mind, however, that the high valuations and strong performance has been limited to a very narrow part of the market.

Looking more broadly at the characteristics of different equity markets, they seem appealing to long-term investors. Earnings yields average around 5-6%, depending on which segment of the market you're looking at, and earnings growth expectations range from 7% to 13%, depending on the segment. When I look at individual stocks, I am not having a problem finding ones I think are appealing from a value perspective.

I believe a good balance for equity investors is to be wary of the expensive part of the market, but open to finding value in the parts of the market left behind.

	Large Cap Stocks	**Dividend Stocks**	**Small Cap Stocks**
Dividend Yield	1.3%	3.5%	1.6%
Earnings Yield *	5.2%	6.6%	6.4%
Earnings Growth	11.6%	8.5%	16.1%
Return on Equity	17.0%	13.0%	10.3%
% Losing Money	6.4%	8.4%	39.7%

Source: FactSet as of 3/3/2024. Dividend Yield is an estimate based on the weighted average of all companies in the category (by market cap). Earnings Yield, Earnings Growth, and Return on Equity are estimates based on the median profitable company. The % Losing Money statistic represents the percent of stocks with negative earnings in the preceding 12-month period. Large Cap stocks are defined here as the stocks in the S&P 500, according to FactSet. Dividend Stocks are defined here as the stocks within the S&P 500 that pay an above-median dividend yield, according to FactSet. Small Cap stocks are defined here as U.S. stocks ranked 1,001 to 3,000 in market capitalization, according to FactSet.

** "Earnings yield" is an investor's share of earnings for every dollar invested (i.e., earnings per share / price per share). It's the same as the more famous Price / Earnings (P/E) ratio, but expressed as a yield rather than as a multiple. I use it to compare stocks more clearly with bonds and other asset classes. "Equity Risk Premium" equals the Earnings Yield minus the 10-year Treasury Inflation Protected Securities yield.*

Artwork

"Boy Blowing Bubbles" by Edouard Manet (1869). Source: WikiArt.org.

Income Investing

Interest Rates	
1yr Treasuries	4.9%
10yr Treasuries	4.2%
10yr TIPS	1.9%
Municipal Bonds (5yr AAA)	2.4%
Corporate Bonds (5yr A)	4.8%
30yr Fixed Rate Mortgages	7.4%

Dividend Yields	
Common Stocks	1.3%
—Top 25%	4.4%
—Next 25%	2.6%
Preferred Stocks	5.9%
Utilities	4.1%
Real Estate (REITs)	3.9%

Source: Interest rates from Raymond James' Weekly Interest Rate Monitor as of 3/4/2023 and The Wall Street Journal as of 3/4/2024. Source for the Dividend Yields is from FactSet as of 3/3/2024. Common Stocks uses the estimated weighted average dividend yield for the S&P 500. The top 25% yield is the median yield of the top quartile of dividend-paying stocks out of the largest 1,000 stocks. The next 25% yield is the median of the second quartile. Preferred Stocks is the median dividend yield of the 100 largest traded preferred stocks (by dollar volume, per FactSet). REIT and Utilities dividend yields are the median of those sector stocks included in the 1,000 largest common stocks.

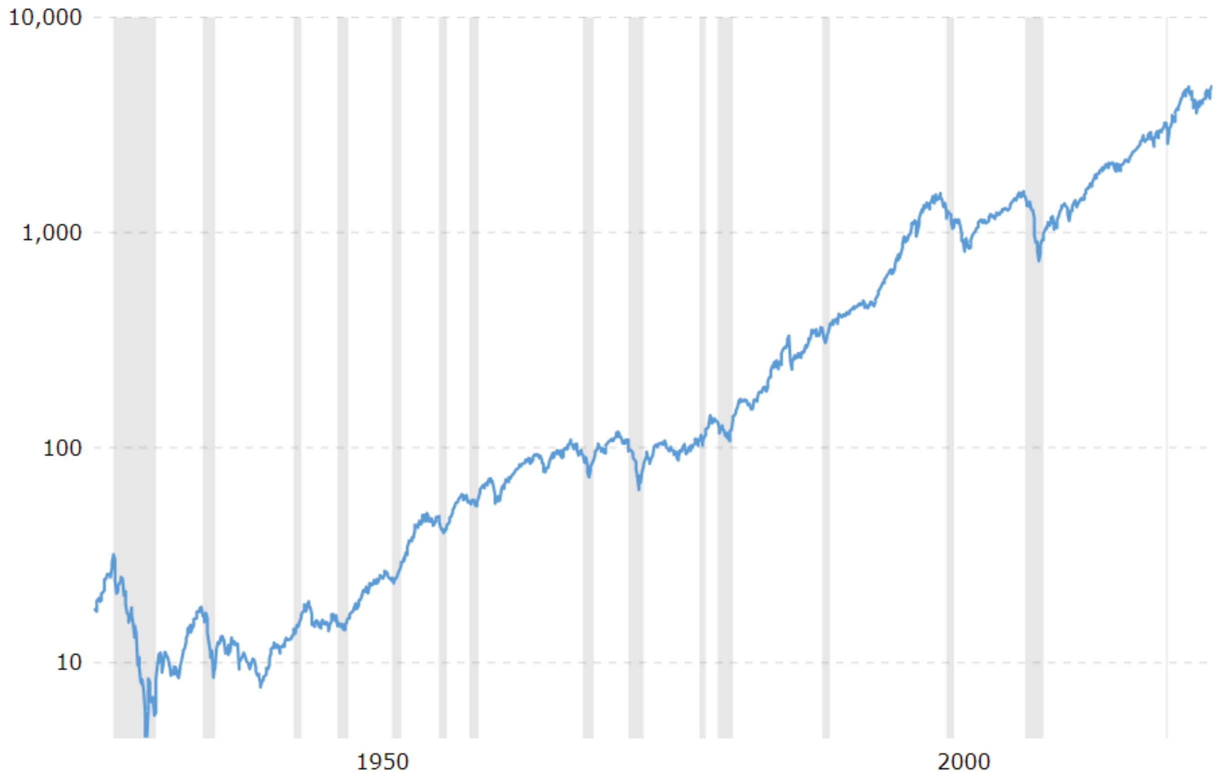
Core inflation has not improved recently. If anything, it's gotten a little worse. Given that, along with the strength in the economy, the Federal Reserve has little incentive to cut rates anytime soon. My guess would be that rates will not fall until the second half of the year, at the earliest. And that's only if core inflation numbers come in better than they have recently.

I continue to believe that long-term interest rates are not particularly attractive given persistent inflation. For that reason, I am keeping my eye on short term instruments of less than one year maturity and dividend stocks that have the potential to increase dividends faster than inflation over time.

** Implied inflation expectations are derived from taking the 10-Year Treasury rate and subtracting the 10-Year Treasury Inflation Protected Securities (TIPS) rate. For example, if the yield on 10-year treasuries is 4.3% and the yield on 10-year TIPS is 1.9%, they are roughly equivalent investments if inflation comes in at the difference (2.8% - 0.4% = 2.4%).*

The Long View

S&P 500, Jan. 1928 to Dec. 2023



Source: MacroTrends.net

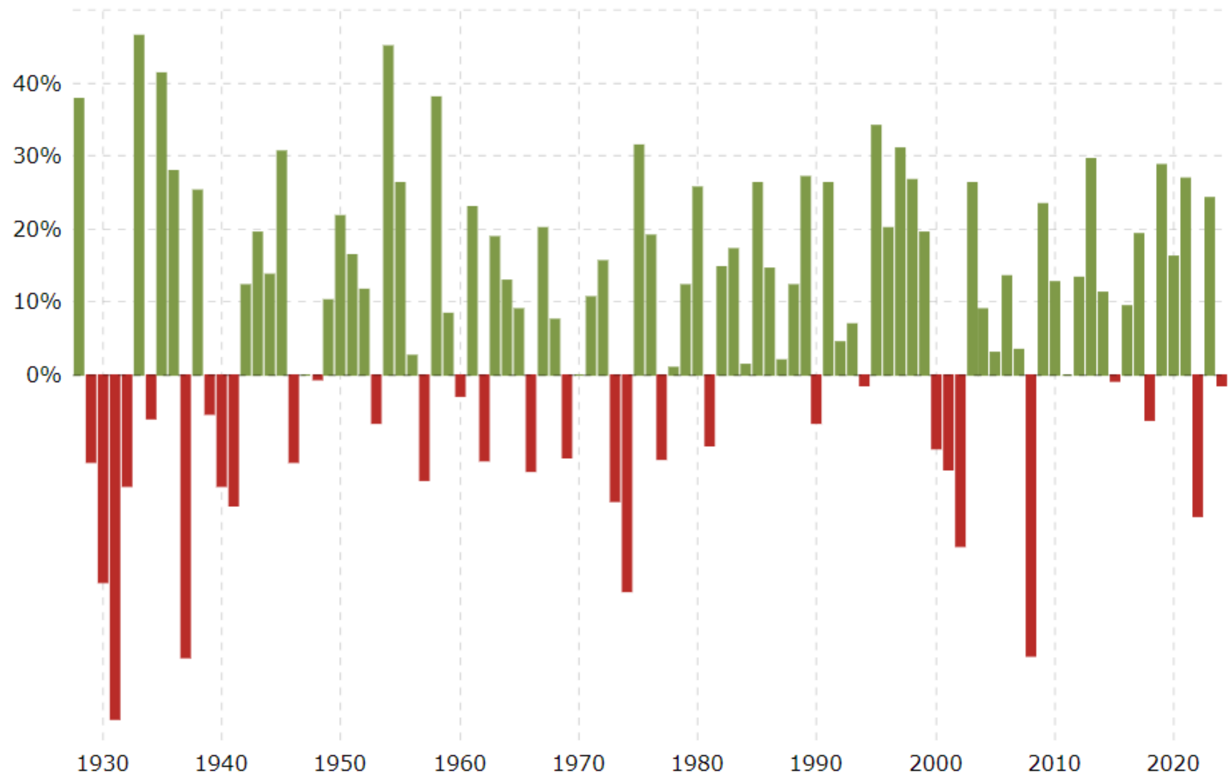
For the last 20, 30, and 100 years, stocks have averaged around an 8-10% return, driven by dividend yield, reinvestment of earnings, and earnings growth. Long-term bonds have yielded about 5% on average over the last century while inflation has been about 3%.

Throughout this period, there have been major upheavals, such as the Great Depression, World War II, The Korean War, The Vietnam War, dropping the gold standard, 1970s high inflation, 1987's Black Monday Crash, the Dot.com bust, the 9/11 terror attacks, the Global Financial Crisis, and the Covid Crash, among others.

These events led to severe market downturns about once every decade, with a median price decline of 33% and a median time to recover back to the previous high of 3.5 years. If we were to include dividends, the recovery to previous highs is actually a little faster. *

Meanwhile, a 3% inflation rate results in a 59% decline in the value of a dollar over 30 years. Meaning that people who retire at 60 years old on a fixed income face a high risk of a lower quality of life as they get further into retirement. *

The Price of Market Returns: Significant Volatility



S&P 500 Yearly Returns, 1928 to 2024. Source: MacroTrends.net

** Source: Morningstar Direct via cfainstitute.org, FactSet. Past performance is not necessarily indicative of future performance. Depreciation of the dollar: $1 / (1 + 3%)^30 = $0.41 real value 30 years later.*

Market Outlook

Now I'll put on my "Nostradamus Hat" and make some predictions, for whatever they're worth:

- Inflation will average 2-4% over the next 10 years.
- Interest rates will fall in the 3-5% range for 10yr Treasuries over the next several years, in line with inflation and historical experience.
- The economy will grow 2-3% in real terms over the next several years, though we will probably slip into a recession this year.
- Stocks will average an 8-10% return over the next 10+ years. After subtracting inflation, this will translate into about a 5% real return, in line with the estimated earnings yield on the S&P 500. There is likely to be at least one big decline every decade or so.

From the standpoint of where you and your family will be in 30 years, none of this matters. What matters is finding good quality investments that are likely to grow over the decades. For this reason, I largely ignore my own general market forecast and invest whenever I find a business that I am confident in and that trades at an attractive valuation.

Help Secure Your Golden Years

I first began managing money in the late 1990s, right when the Dot.com boom was taking off. People who didn't know anything about business were making money buying whatever stock was being hyped on TV. Wall Street firms were overflowing with profits by selling stocks to the public they knew were worthless. One notorious analyst earned $12 million a year, while privately putting down the stocks he was promoting.

Then it all came crashing down.

Most of the Internet stocks of that era went bankrupt or lost most of their value. The market went down for three straight years from 2000 to 2002. Millions of investors lost a huge chunk of their retirement savings.

Did people learn the right lessons? Only a few years later, we had the Great Financial Crisis from 2007 to 2009. Again, Wall Street was selling worthless financial instruments. This time it took down the real estate market too. Again, millions of investors lost a large portion of their retirement savings.

We want our clients to hold positions of real value, so we **personally research** all the positions in my strategies and review them regularly.

While it may surprise you, we believe this commitment to personal research and investment management sets us apart from other advisors. The vast majority of advisors outsource research to fund managers or their firm's cookie cutter options.

Instead, we personally research each position to develop the confidence that it is right for you. This commitment to research develops the trust, for us, that all the strategies we recommend are the right ones for our clients, in line with their risk tolerance, time horizon, and future goals. **Your finances are too important for a cookie cutter solution.**

At The Birch Lane Group of Raymond James, we work as a team to provide our clients with personal service, custom financial planning, and investment management tailored to your needs. I specialize in retirement planning, executive compensation and equity interests, attorney practices, and investment management. Donna Colucci also does extensive financial planning, with expertise in life transitions, divorce planning, estate planning, and long-term care insurance. Tricia Jones works tirelessly on client service, trading, and account management.

We are dedicated to helping you achieve financial independence and a comfortable, stress-free retirement.

What Can a Financial Plan Do for You?

Having a well-designed financial plan and investment strategy is important for your financial future. It can help improve your security, confidence, and comfort. It can answer questions like:

- How much will you need to be financially independent?
- What are the odds that you will run out of money?
- How will you handle unique circumstances, such as executive compensation, kids' college education, elderly parents, special needs children, and other elements of life?
- Should you change any savings or investing habits?
- Could you improve any of your current investment choices?

If you have never had a financial plan run for you or have not reviewed yours recently, we would be happy to create a complimentary financial plan and investment strategy for you.

To set up a time, please visit my calendar online at Calendly or email me at Randall.Watsek@RaymondJames.com.

Sincerely,
Randy Watsek

P.S. If you know anyone who might benefit from the information in this letter, please pass it along.

Also, I am also available to speak on educational topics such as retirement planning at events and lunch-and-learns you are holding, whether in person around the New York City area or by video anywhere in the country.

Biography

Randall Watsek and the Birch Lane Group currently maintain or advise on over $200 million in client assets. He has managed money for over 25 years, first as a credit portfolio manager at City National Bank and then as an equity research analyst, sector portfolio manager, and quantitative researcher at DGHM, a quality value boutique. He leveraged this experience to start an investment advisory practice at Raymond James.

Watsek earned an MBA from the University of Chicago in Analytical Finance and Accounting, and a BA from Claremont McKenna College in Economics and History. He also earned the CHARTERED FINANCIAL ANALYST (CFA®) and CERTIFIED

FINANCIAL PLANNER (CFP®) designations.

Watsek has been quoted in a variety of publications on investing and personal finance topics, including *MarketWatch*, the *Wall Street Journal*, *Investor's Business Daily*, *Money Magazine*, the *Arizona Republic*, *ThinkAdvisor*, *The Business Journals*, and *ReThinking65*.

Watsek is the father of two young children and lives in Westchester County, New York.

The Birch Lane Group of Raymond James

The Birch Lane Group advises clients collectively holding over $200 million in assets. The team consists of:

Donna Colucci, CFP®, Associate Vice President
Tricia Jones, Registered Client Service Associate
Randall Watsek, CFA®, CFP®, Financial Advisor

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