

Don't Bank Your Retirement on Your Business

Investing in your own business makes sense. Many businesses achieve significant growth each year. However, when you consider that many small businesses fold every year, it becomes clear that banking your retirement solely on the success of your business might not be the best idea. There is no guarantee that your business will continue to grow or even maintain its current value. If your business is worth less than you were counting on at the time you planned to retire, you could be forced to continue working or sell it for less than what you were expecting.

Business owners often assume that their businesses will be their main source of retirement funds, but that strategy could be riskier than you think. It's generally not wise to put all your eggs in one basket. Broadly diversifying your assets may help protect against risk.

Diversification involves dividing your assets among many types of investments. Putting all your money into a single investment is risky because you could lose everything if the investment performs poorly — even if that investment is your own business. Of course, diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against the risk of investment loss.

Consider what would happen if you were planning to rely solely on the sale of your business to fund your retirement, only to have the U.S. economy fall into a recession about the time you planned to retire. If a recession occurred when you planned to retire, it could affect the sale of your business or the income it generates for you.

Likewise, there is no assurance that a larger competitor won't overtake your market, or that demand for your business's goods and services won't weaken because of new technology, rising energy prices, consumer trends, or other variables over which you have no control.

Your business is almost certain to provide some of the money you need to retire. By building a portfolio outside of your business, you are helping to insulate your retirement from the risks and market conditions that can affect your business.

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