

Business Term

ASSESSMENT GUIDE

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What is it?

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CALCULATION

$$\frac{\text{Business Equity}}{\text{Annual Living Expenses}}$$

Business Term



Business equity includes any assets owned by a business entity less any related debts.

Example: assuming a client has a business valued at \$1,000,000 with a loan of \$300,000, and they spend \$100,000 annually, then their Business Term is 7.0.



Why is it important?

For business owners, it's not uncommon to have the majority of their net worth tied up in their business. While generally illiquid, a business can serve as the primary driver for financial success for many clients. To them, their business is directly under their influence, making it a clear choice of focus to improve their chances of success in the future, and make a better life today.

How do I use it?

The following process can be used to assess whether a client's Business Term is appropriate or if they need to make improvements:

- 1. Accuracy:** ensure the accuracy of the Business Term inputs.
- 2. Assessment:** assess whether the given Business Term is appropriate.
- 3. Improvement:** Identify areas of improvement

STEP 1

Score Accuracy

To calculate Business Term all you need is an up-to-date net worth statement and an accurate spending number. For details on ensuring the accuracy of these inputs, you can reference the Burn Rate (for spending) and Total Term (for net worth) assessment guides.

STEP 2

Score Assessment

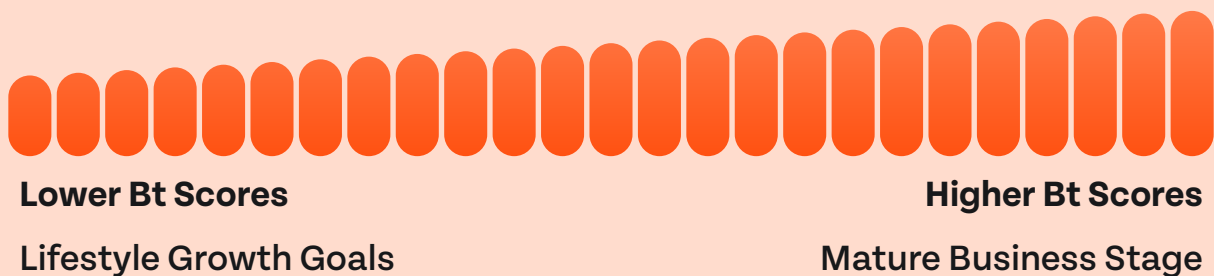
Note: While it's important to understand a client's Business Term by itself, all Term scores are typically best assessed together to be able



to compare total asset mix, holistically. See the Total Term assessment guide for more details.

CORRELATING FACTORS

Factors correlating with Business Term stem primarily from business characteristics as opposed to personal characteristics. These factors will help you determine if the given score is appropriate or not.



STEP 3

Score Improvement

Consider the following questions for business owners as you identify steps to make improvements:

- Is the client's business structure appropriate for their needs?
- What entities are involved in the business? What is the purpose for each entity
- Is the profitability of the business healthy?
- Should the client consider hiring a business coach or consultant?