LYONS
Financial Services

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## Introduction

### Welcome to Lyons Insights

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Welcome to this latest edition of Lyons Insights. In this month's issue, we have two articles for your enjoyment.

Our first article is a reflection on the last decade and the lessons that each of us can take, having gone through the cycle in Ireland of boom to bust and back to growth. This is followed by an article for our business clients about the importance of protecting your most valuable assets - your people.

I hope you find something that is of interest to you.

Best wishes,
Roisin

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## Expert Articles

### What's changed over the last decade?


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History teaches us many things. Particularly if we're looking for a bit of guidance in prudent personal financial management, the last decade offers us a wealth of useful lessons.

During the last decade we've seen a (hopefully) once in a lifetime global economic collapse, the entire banking system teetering on the brink, followed by a deep recession. However thankfully now in Ireland (although unfortunately not in every corner of the country), we've seen a strong recovery in recent years to a point where it appears the boom times are back! So what can we learn from all of this, particularly as we hear that dreaded "boom" word??

**Be careful who you listen to**

Let's start with the European Central Bank's Monthly Bulletin of March 2007 that said,

*"Looking ahead, the medium-term outlook for economic activity remains favourable. The conditions are in place for the euro area economy to grow solidly. As regards the external environment, global economic growth has become more balanced across regions and, while moderating somewhat, remains robust, supported in part by lower oil prices. External conditions thus provide support for euro area exports. Domestic demand in the euro area is also expected to maintain its relatively strong momentum.*

*"Investment should remain dynamic, benefiting from an extended period of very favourable financing conditions, balance sheet restructuring, accumulated and ongoing strong corporate earnings, and gains in business efficiency."*

Well, how about that! Within a few short months the global economy started to implode, and the whole EU project faced desperate times with the emergence of the PIIGS economies – do you remember them? These were also the days of Dublin taxi drivers boasting about the 3 properties (never to be built) they had bought for a song on a beach in Bulgaria.

So be careful who you listen to and be very circumspect about market noise and the latest "sure fire" investment opportunity.

### Keep a long-term perspective

When you are looking at your pension fund, or your risk rated investment portfolio, you need to maintain a long-term focus. There's always a huge temptation to try and time the market, but this is folly.

The people who suffered most in the economic collapse were those who had no plan and tried to call the market. These people typically sold assets such as shares or property after significant falls in value and then after suffering so much, were very slow to re-enter the market and missed most of the recovery. In fact, stock markets had pretty much fully recovered in 2011, but many people were out of the market for much of the recovery period and their portfolios did not recover. In fact the S&P 500 rose by ***almost 200%*** (196.2% to be exact) from the eight years from March 2009, rewarding people who stayed invested.

People with a plan typically stuck to it and avoided making short-term calls. They did not make large scale asset movements and as a result they experienced the collapse, but more importantly also the recovery in the markets.

### Diversification is key

Back to those Dublin taxi drivers, and many other people in Ireland, this is one lesson in particular that was bitterly learned. Ireland's love of property above all other assets hit many people very hard. No matter what your investment objectives are, it is very important that you protect yourself by not being over-exposed to any one asset category in particular.

### Keep emotion out of it

If investing were a science then there would simply be a formula for success. We all know this is not the case. Our successes (and failures!) are strongly affected by uncontrollable market factors, which emotionally affect us and cloud our judgement.

The people who tend to suffer most are those who exhibit extreme emotions in relation to investing. Being too greedy is a recipe for disaster in a rising market, as these people often don't take the opportunity to lock in any gains. In a falling market, excessive fear is also a big enemy as people exit the market and are too fearful to re-enter, thus missing a market recovery. The answer is to make investment decisions on logic alone… both yours and that of your adviser!

### Have a safety net

The economic collapse resulted in a lot of pain for many people, with salary reductions and a large increase in unemployment being two of the most unwelcome effects. For these people, cashflow became an immediate issue as their non-discretionary outgoings (such as mortgage and other loan repayments) typically did not reduce in line with the fall in income. This caused significant issues for people with no cash buffer as they struggled to deal with banks and other creditors, resulting in significant financial pressure, stress and a dramatic fall-off in their lifestyle. Going forwards, many people have prudently prioritised a cash (or other liquid asset) buffer as one of their investment objectives.

### Don't go it alone

As people saw their portfolios collapsing and faced uncertainty about their financial futures, it became more and more difficult to make rational decisions. This is where a trusted voice became extremely valuable and for many, that voice was their financial adviser. We're able to stand back, remove the emotion from the situation and provide clear thinking in a difficult situation. Sometimes the advice might be to do nothing. For others, we can help you face up to your situation and plan on how to deal with it.

Having that second opinion, apart from the positive impact it will have on your financial wellbeing will also seriously reduce your stress levels!

So in summary, our advice is to have a financial plan and stick to it. Tune out of the market noise and watch the horizon rather than the next hill. And let us help you to keep emotion out of your decision making and to stay on the right track.

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## How well is your company protected?

*So what do you think about when you think of something "going wrong" in your business? Is it a fire in a warehouse, an accident involving a company vehicle, maybe somebody tripping and falling in one of your retail outlets? One area that sometimes slips under the radar is the impact to your business if something happens to your most important assets. Your people.*

One of the more important business activities of any company owner or partnership is the whole area of risk management. Yes of course you have the day-to-day challenges of bringing your products to market, selling, building your brand and your presence, and meeting and exceeding the expectations of your customers through your product delivery.

Sitting behind these are the important tasks of running the financial side of your business, getting the best people in place and running your business efficiently. And then there's risk management, in case anything goes wrong.

So what do you think about when you think of something "going wrong"? Is it a fire in a warehouse, an accident involving a company vehicle, maybe somebody tripping and falling in one of your retail outlets? Is it someone suing you for poor performance in your business activities? These are all areas where businesses build contingency plans or put insurance in place.

But one area that sometimes slips under the radar is the potential impact to your business or partnership if something happens to your most important assets. Your people. We want to make you aware of the different strategies that you can put in place to safeguard your company against the death or inability to work of one of your key people.

### Partnership Insurance

People who are engaged in a professional partnership, such as solicitors, accountants, medical professionals and others who work together outside of a company structure need to consider what would happen in the event of the death of one of the partners in the firm. Because on death, the deceased partner's share of the firm immediately becomes part of their estate, which could be called upon as a debt by the deceased partner's survivors. This potentially could create enormous issues for the remaining partner(s) who would need to immediately raise finance (if they can) in order to buy out the deceased partner's share. Of course the alternative is that a deceased partner's family member could instead become involved in the firm instead, this being a real potential recipe for disaster!

BDO Simpson Xavier released the sobering statistic that 72% of businesses cease trading within 5 years of the death of business's founder, often because the remaining partners simply don't have the financial firepower to compensate the deceased partner's estate and keep the business going forwards.

Thankfully partners can protect themselves against this risk. Each partner can take out partnership insurance on the lives of their partner(s). Should one partner die, the remaining partner(s) now have immediate access to the necessary capital to buy out their deceased partner's share of the firm. The deceased's family are looked after and the firm can continue to grow.

### Co-Director Protection

This is similar to partnership insurance but in a company context where there are directors in the business who are shareholders of the business. When there is Co-Director Insurance in place, in the event of the death of a director, the remaining directors (or the company itself under a Corporate Co-Director's Insurance policy) can buy out the shareholding of the deceased director.

This prevents a deceased director's family having to become involved in the business, where they may have no desire or experience to do so. This insurance also enables the company to control it's own destiny, should such an unfortunate and unforeseen event occur. The deceased's family are fairly compensated and the remaining directors retain control of the ownership and direction of the business – a best-case scenario for all concerned.

### Key Person Insurance

It's not at all unusual to have one or two key people in a business, who are not shareholders in the business. They may simply be exceptional employees with unique talents or expertise that the business relies upon heavily. To lose such a person would be like cutting off a limb, and may even threaten the very future of the business, as their input is so key.

Businesses can protect themselves against the loss through death or illness of such a person through a Key Person Insurance policy. These policies enable the business to survive such a loss, by providing a cash lump sum for the business. This may give the business time to hire required replacements or to pay down some debt as they adapt to life after their deceased colleague. This insurance might prevent a business imploding after the loss of a key person.

Yes it is important to protect your physical assets, your premises, your vehicles and your stock and to ensure you can adequately manage any other potential liabilities. But your people are the very heartbeat of your business.  Don't let losing them lead to the death of your business.


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