

A close-up photograph of a person in a grey suit and blue striped tie. The person's right hand is holding a hammer with a red handle and a silver head. Their left hand is holding a white piggy bank with blue accents and a smiling face. The background is a plain, light-colored wall.

# 13 Tips for Saving and Investing While Owning a Business

For any small business owner, launching a company is about building up capital and trust.

By [Dawn Reiss](#) | Contributor

April 20, 2016, at 9:31 a.m.

When it comes to [saving and investing](#) in his small business, Bill Hammer Jr. likes to joke he did what any good investor does – he sold at the top.

That meant cashing in on his conducting career after earning two Grammy awards and re-engineering his father's business in 2008 into a boutique wealth management firm in New York. "I knew I was never going to make any money in music, so I'd have to invest wisely," says Hammer, co-founder and CEO of Hammer Wealth Group. "The more I studied investing, the more I actually liked this and realized this could be more than a hobby."

That's not to say things were easy. Two years after going into business for himself, Hammer says he did something he advises his clients not to do – he drained his 403(b) tax-sheltered annuity of approximately \$20,000 to write a book and infuse his business into what it is today.

**[Read: [The Panama Papers: What Is a Tax Haven?](#)]**

"I knew I needed to do a couple of things to juice the business and get it going," says Hammer, who wrote the book "7 Secrets of Extraordinary Investors" in 2012. "I figured if I was taking out some of it, I might as well take all of it. I knew I probably wouldn't need all of it, but business is unpredictable and the longer you're in business the more you realize how unpredictable it is."

Here's what Hammer and other experts suggest to avoid major pitfalls in saving and investing [when running a business](#).

**Invest in your business.** "One of the best things you can do is invest in is your business," Hammer says. "It could be making the product or service better. It's going to be hard to beat the returns of your business, especially if it's increasing your cash flow."

**Have liquid assets.** Savings are important for everyone, but especially if you're a small business owner. Until a business is stable, getting the business to a point where an owner can make a living doing it should be the main goal, not saving for retirement, Hammer says.

Plan to live off personal savings for the first year, possibly two. "That's critical," says Louis Grassi, owner and managing partner of Grassi & Co, an accounting firm in New York that did \$50 million in business in 2015. "You need to have sufficient capital because most businesses go out of business because they run out of capital. You need to have to have a rainy-day fund."

Building in the contingencies will help for multiple reasons. "I don't know if the financial benefit of doing that is as big as the physiological benefit," Hammer says. "Just knowing I can make it and I don't have a gun to my head to make it is important, because it's hard enough. Hunger is good, but desperation isn't."

**Be conservative when investing in a physical space.** Once new business owners have enough cash flow, many rush to get "a fancy office to have bricks and mortar," Hammer says. Even though the cash flow is fine, the expenses quickly become too high. Depending on the business you probably won't need it, he says. "If you're a hairdresser you might need it," Hammer says. "But there are ways to do it so you're not saddled with a high fixed cost base. You want to have a high variable cost base where you can scale it up or down depending on how much demand, but not a fixed cost of building or a location that's too pricy."

**[Read: [8 Tips to Create Income From Rental Property](#).]**

**Give your business a stress test.** A [stress test](#) is a hypothetical situation to see how a portfolio or business responds to a downturn. "See what would happen if you lose 25 percent of your business and expenses are 50 percent higher," Grassi says. "See what you need to support the business in capital. Stress-test it to see what capital base you need to survive."

**Consider buying an existing small business.** Then expand that business as time and money allow. "It lessens the risk a bit, because you kind of know what you have," Grassi says. "You can pay the existing owner over a couple of years because you've already mapped out the existing cash flow."

**Look at a business as a separate entity.** Many entrepreneurs make the mistake of looking at their business as a personal credit card instead of reinvesting in the company. "You can't just can't drain it, like it's a funnel to you and every dollar you make you take out," Grassi says.

**When investing, take the risk in running a business, not picking stocks.** Because owning a business is so risky, don't take the risk in your retirement account, Hammer says. "Don't bother with buying individual stocks," Hammer says. "Keep the risk in your own business and keep it simple in your portfolio."

Consider taking the [Warren Buffett approach](#), who famously set up his wife's estate with 90 percent in a low-cost Standard & Poor's index fund and 10 percent is in short-term government bonds. "If it's good enough for him, it's probably good enough for us," Hammer says.

**A diversified portfolio reduces the risk.** The broader, the better says Hammer. He suggests Vanguard Total World Stock exchange-traded fund (ticker: [VT](#)) and any S&P 500 index fund from iShares, which offers ETFs from BlackRock ([BLK](#)) to own a large portfolio of global business. "I'd favor the U.S. because even though it's the U.S., American businesses make a lot of money overseas," Hammer says.

**Have a mix of passive and active investments.** To balance the risk-and-reward ratio, every small business owner should have a blend of investments, including a [passive fund](#) that tracks the S&P 500 index as well as international exposure through active investments where a manager is keenly managing the fund, says Melinda Kibler, a certified financial planner who is a client services and portfolio manager for Palisades Hudson Financial Group in Fort Lauderdale, Florida.

**[Read: [Do Actively Managed Funds Really Pay Off for Investors?](#)]**

"There are certain areas of the portfolio where the market is very efficient, so having an active mutual fund manager isn't going to be a benefit, because they aren't going to be able to beat the market," says Kibler, who recommends Schwab S&P 500 index fund ([SWPPX](#)) and iShares Core S&P SmallCap 600 index ETF ([IJR](#)) for passive exposure, along with Matthews Pacific Tiger Fund ([MAPTX](#)) and T. Rowe Price Latin America fund ([PRLAX](#)) for more active investments.

Make sure to ask about fee structures, if it's percentage-based or flat fees to make sure you're not paying too much, she says. Keep in mind, mutual funds and ETFs have an expense ratio, Kibler says, where a fee is built into the funds.

**Consider a Simplified Employee Pension or profit-sharing plan.** After the business begins to make money and there is enough extra, [consider investing in a SEP](#), where a business owner can contribute 25 percent of compensation or \$53,000, whatever is lower. Once employees are in the mix, the calculations become complicated because an employer must contribute to their pension as well. That's when many small business owners will then move towards a profit-sharing plan where they can contribute based on their cash flow.

**Rein in the tax-deductible expenses.** One of the big pitfalls is expensing too much travel and entertainment through the business, Hammer says. "You tend to spend that money too freely, when you can write off a dinner, or the lease on your car," he says. "That can get out of hand pretty quickly. You can feel like it's free money, but it's still not."

**Don't forget the basics.** Many business owners get so busy they don't remember to create a will and buy life insurance. "If I didn't wake up tomorrow, that ATM would shut down if I wasn't here," Hammer says. "And what would happen to my family and people who are dependent on me?"

Instead he recommends small business owners to take a \$1,000 to get a will or small life insurance policy instead of making an IRA contribution.

**Ask for money before you need it.** If you've had a good year or two good years, consider getting a line of credit from the bank when you can, Hammer says. "Ask at the point where your business looks really great," he says. "You don't want to ask when you are in the belly of the beast and everything stinks, because the bank won't give you money or you'll have to go to some hard money lender."

Instead get an equity line of credit that's not drawn, but available in reserve instead of trying to go through obtaining it during a cash-flow crisis. "You want your only question to be how much do we need, when do we need to take it, not how do we find this money," Hammer says. "Typically, unless you have a family member or friend, to go the traditional channel at that point could put you out of business."



Tags: [income investing](#), [investing](#), [Vanguard](#), [money](#), [income](#), [small business](#), [business](#)



[Dawn Reiss](#) | CONTRIBUTOR

[Dawn Reiss](#) is an award-winning journalist in Chicago who has written for TIME, Reuters, Chicago Tribune, The Atlantic and Travel + Leisure and many other publications. Follow her on Twitter, Google+ and Instagram [@dawnreiss](#).