[DBA Name]

Investing for Small Business Owners

As a small business owner, you have to consider many aspects of investment that an individual investor may be able to overlook. With your business assets and legacy at stake, it's important to understand investing strategy in order to avoid the common investing mistakes that many small business owners make.

Small business owners by nature are entrepreneurs, and this type of innovative personality often means that you are likely to take risks. However, while risk-taking may be necessary when starting a company, investing in a risky manner can ultimately endanger the very thing you want to protect—your business.

Investing strategies for small businesses can include:

- **Setting up a reserve account**
- **Looking beyond your own business**
- **Diversifying by industry and location**
- **Focusing on preservation**
- **Rounding out your portfolio**
- **Customizing your portfolio**

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Set up a reserve account

While the ideal situation is that your business provides you and your family with a steady source of income, this is not always the case. However, by investing a fixed amount of cash (at least three to six months' worth, although stashing away a year's worth can be beneficial) in a liquid account such as a money market fund, you establish a cushion that can help protect your family or your business should your other investments or your business perform poorly.

Look beyond your own business

While diversification is one of the cardinal rule of investment in today's market, many small business owners still ignore it and choose to invest almost all of their assets in their own business. After all, why wouldn't you want to invest in a business that you are familiar with and where you have a large amount of control over how well the business performs? The logic behind small business owners' decision to do this is certainly understandable; however, this investment strategy can be unfavorable, as it can possibly increase risk, and can cause inflexibility and illiquidity within your portfolio. In addition, small businesses are more likely to feel the pressure of natural economic patterns, such as increased competition or price inflation, simply because of their size. If all of your assets are tied to an investment with this kind of fluctuation, you could face consequences down the line.

Diversify by industry and by location

When small business owners do invest in companies outside of their own, they often turn to businesses or industries that are related to theirs, as they feel their industry knowledge allows them to more accurately evaluate the future performance of these companies. Unfortunately, this can create even more risk within your portfolio, as similar companies usually have similar performance. If the market were to shift out of favor with your particular industry sector, it could impact your portfolio.

Investment diversification can go beyond industry—you should also avoid concentrating your portfolio on any one geographical region. Many small business owners like to invest all or most of their assets in local businesses, but this can have the same risk repercussions as investing all in one industry. By investing in securities outside of your region or even your country, you can avoid letting the economic troubles of one area ruin your entire portfolio.

Focus on preservation

Instead of limiting your portfolio to just your business, try to think of your business as simply one part of your overall investment portfolio. General best practice for small business investors is to base the structure of their portfolio on preservation rather than large-scale growth. By focusing on a more conservative investment strategy, you can have a better chance of being able to rely on your portfolio during an economic downturn when your business may not be doing as well. If you focus mainly on growth and a riskier investment strategy, both your portfolio and business could collapse if there is a dip in the market.

Round out your portfolio

Integrating your business interest with other investments is a good way to lessen your overall risk: focusing on preservation means protecting your capital in recessionary markets while still allowing for growth in expansionary markets. For example, a small business owner could choose investments in government or high-quality municipal bonds and small-cap equities or high-yield bonds to complement his business interest. The government and municipal bonds can help him should the market hit a recession, as other investors will want to buy bonds at this time to protect their portfolios, causing bond prices to rise. On the other hand, if the market were to hit an upswing, small-cap equities and high-yield bonds, which have higher volatility, have the potential for higher returns and could allow him to benefit from this market surge. While there's no one method of asset allocation that is guaranteed to produce the best returns, the most important thing to remember is to invest in a variety of assets and a variety of markets to avoid large-scale loss.

Customize

There is no magical formula for the "right mix" of investments for small business owners. You have to consider your time horizon, risk tolerance and current business status in order to find the best investment strategy for you. It can also be helpful to conduct a historical performance review of your business's performance through various market cycles. Your financial professional at Prudential can help you do this in order to see which investment vehicles will be suitable for you. While your business should provide you with all the income you need, engaging in practical and efficient investing strategies can help you breathe easier if that isn't the case.

If you would like more information on how to invest as a small business owner, please contact your Prudential financial professional.

Diversification does not assure a profit or protect against loss in declining markets.

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