Riches to Rags

The Bungee-Jumping Entrepreneur

By Jack Garson

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Entrepreneurs are constantly bungee-jumping their way through life. Some bounce back. But others lose everything when that cord snaps. Yes, some risk-taking makes fortunes. But you need to manage that risk, especially once you've made a bundle. In my thirty years counseling clients, I have seen entrepreneurs lose millions when they should have sat back and watched others seek thrills.

Needless risk comes in many forms. Consider the real estate mogul who lost hundreds of millions when he ventured out of his comfort zone and into the media business. Or who can forget the superstar athletes who start a restaurant chain — at least they get to keep the t-shirts. Then there's the tech tycoon who cashes out of a once-in-a-lifetime success story and squanders his entire bankroll building a business "his way." Some businesspeople think that they've got the Midas touch. After years devoted to building a single business or career into a stellar success, they pocket millions of dollars. But they're not content to guard their hard-earned fortunes. Instead, they lose ridiculous amounts of money on new ventures. Call it the Curt Schilling "Can't Fail" Strategy.

Despite my pleas, one client — who netted over $150 million from the sale of his tech company — went on a real estate spending spree at the 2007-08 market-peak, just before the financial meltdown. It took him 20-plus years to amass almost $200 million and just over one year to turn $100 million of it into a "portfolio" of money-sucking shopping centers that were worth a fraction of his initial investment. One of these shopping centers literally had only one rent-paying tenant — every other store was vacant. This guy now writes a check every month — instead of cashing one — to stave off foreclosure.

Bottom line: once you've made millions in one business, there is no need to "go all in" on the next one. You should use your own cash sparingly, conduct extensive due diligence and defray the risk with money from other investors. And don't let the persistence of others affect your judgment. Forget about building a better mousetrap. Once you hit it big, the world will really beat a path to your door. People will flood you with deal proposals. Learn to say "no."

Then there is the enormously successful entrepreneur who can't sell. You need to know when to let go. For the cupcake business, it was last Friday. Inevitably, competition is coming. It's going to flood your market, clobber your sales and crush your profits. The secret test: sell when everything is perfect and you can't imagine selling.

Other entrepreneurs lose their fortunes when they treat legal requirements as if they're mere suggestions. They bribe officials. They fail to pay taxes. They cheat government programs. As a lawyer, people tell me their secrets. So I can tell you from someone who is in the "confession booth" on a regular basis, we are not talking about the rare "oops" here. We are talking about a flood of misdeeds. Look to your left. Look to your right. One of the three of you is doing something bad. All too often, businesspeople mistake lax enforcement for a green light. Or they look at competitors who break the law and want in on the action. The benefits of breaking the law are often minimal or short-term. Yet the punishments are devastating and long-lasting. Fines, attorneys' fees and prison all tend to crush your net worth.

Other prequels to financial ruin are much more personal. They range from drug and other addictions to repeated and costly divorces to a propensity for simply wasting one's money with foolish spending. In one case, I observed a tremendously successful executive who lost it all after the cops pulled him over and found cocaine. Before he even went to trial, he became radioactive in the business world. No bank would lend to him and no other business would sign a contract with him. In the time it took to read the headline, his entire empire crumbled.

Running through all of these examples of riches to rags is a common theme: self-destructiveness. We all have it, but most of us limit our self-inflicted wounds. In our personal lives, we don't exercise enough or eat right or devote enough effort to our personal relationships. In the business world, angry emotions creep into business negotiations and kill deals, or we fail to show the proper consideration for employees and then lose some of our best ones. For those who are risking ruin, you need to take action.

First, here's a gut-check. If you won't tell your spouse or lawyer or board of directors what you are doing, you're approaching a cliff. Step back.

Second, get advice. You titans of industry — who will one day be fighting over the temperature of your morning coffee at Sunny Hills Retirement Villa — are not weak just because you are not experts in everything. Talking to an advisor does not mean you have to follow his or her advice. The key is learning what you don't know and, ultimately, getting and following good advice.

Third, manage risks. This could mean buying insurance, actually reading contracts or establishing an asset protection program. The simplest of measures can protect fortunes. In many states, for example, titling your assets in the name of you and your spouse can protect that property from certain creditors.

Fourth, change. See a shrink. Work on your problems. With effort, you will see your business and personal lives improve tremendously. There should not be anything so threatening about sitting down with a professional and giving your mind a workout. You wouldn't think it's crazy to hit the gym and lose a few pounds. Your mind is more important than your biceps. You're going to get a lot more productivity out of good decision-making than you will from being able to touch your toes — although both are good.

Success is a rare achievement. You need to manage risk to get there. And you can only enjoy a fortune if you still have one.

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