Manage a serial divorcer's wealth

Dean DiSpalatro / September 12, 2014

***Sarah Kraettli*, 54, is a wealthy business owner who married** her fourth spouse five years ago. She faces ongoing support obligations, and two ex-spouses are suing her. Her first spouse has shares in her company and could complicate plans to sell.*

The situation

Sarah's 54 and has more money than time, and the needy men she finds attractive tend to notice that.

She started a value-added distributor/retailer computer business in Kitchener, Ont. during the mid-1980s, and graduated to acquiring software companies in the '90s. She now owns licensing rights to a popular customer management system, and two database management systems that are used in the retail shipping and aeronautics supply chain industries.

All this has made her fabulously wealthy. Her firm, which still does wholesale computer furniture distribution, yields her an annual paycheque of $1.8 million. The company nets $4 million annually after expenses, but much of that profit is plowed into a slush fund earmarked for the next acquisition. Annual earnings from the three licensed products total $10.4 million and the side businesses earn an additional $1.2 million.

Her apartment occupies two floors of a downtown building, and she owns a home in Collingwood, Ont., where 47-year-old husband number four, Carter, spends most of his time skiing or hiking. Carter has threatened divorce, but has yet to take action.

Her problems are ex-spouses one, two and three, and potentially number four. She has no children.

Sarah's wealth, and the lack thereof among the men she's married, has proven expensive. Her first three spouses showed they had no visible means of support beyond her income, and two were able to prove they were solely occupied with home making (the third was a fledgling singer/songwriter who reported only $28,000 in income during their five-year marriage).

As a result, Sarah's got some hefty bills:

- **David** (56), receives $125,000 in annual support after a four-year marriage and lives in a downtown Calgary apartment. He occasionally emails for supplemental funds after a lavish week of spending. These emails are deleted, unread.
- **Derek** (54), got a $175,000 settlement following a three year common-law relationship. He took about $350,000 in furniture and art. Sarah agreed to let him have the objects in order to speed settlement mediation and resolution.
- **Maynard** (49), is getting $150,000 annually after a 2005 divorce. He produced a letter Sarah signed in 1998 saying she believed in him and would fund his music dreams until he signed a record deal. He returned to Texas after the marriage ended and considered himself lucky to get out with his guitars and recording equipment.

She also made the mistake of giving David 7% of her company's shares to sweeten the deal. She had the presence of mind to write a cohabitation agreement with Derek and a pre-nup with Maynard, which specify spousal support and communal property only. She has a similar pre-nup with Carter.

Both Derek and Maynard are suing for David's deal, citing precedent. The 7% she's given up could turn into 21%; and could be 28% if Carter's loneliness gets the better of him.

What can Sarah do to stanch the financial bleeding to ensure there's enough left for when she decides to retire?

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Managing Sarah's wealth and estate

Business owners are often so busy running their businesses and private lives that making money on their money gets neglected. Based on what we know about her situation, her portfolio might look like this:

***Cash.** I wouldn't see any need for cash apart from her immediate liabilities, an emergency cushion, and perhaps a slush fund, also, depending on what happens with her spousal disputes.*

***Fixed income.** With rates so low, I would suggest only about a 20% allocation, just to give the portfolio some balance.*

The asset classes I'd be allocating to more heavily are:

***Equities.** I would divide them geographically - Canada, U.S. and the rest of the world - with a combination of large-cap, mid-cap and small-cap. Sarah has enough wealth that we can look at multiple styles, incorporating passive, active, growth and value.*

***Alternatives.** We would have a conversation about whether she also wants to own other private businesses. Her fixed income is fairly low, so I'd be using some hedge funds to offset volatility in the equity market. These are "hedged" hedge funds, designed for risk management and capital preservation. We would hedge currency risk and interest-rate risk, for instance. We would also look at estate planning. She must have a clear will, powers of attorney, and up-to-date beneficiary designations.*

I would also suggest an integrated approach between investment and insurance solutions as in Sarah's case, there are specific business-related insurance concerns.

For instance, depending on her senior management team, she may consider key-person insurance on her life. She should also have her medical expenses covered by a company health plan. If spousal support obligations are ongoing, she could consider using insurance or a term-certain annuity to fund them.