**TM\_EP\_Malcolm Ethridge**

[00:00:00] Welcome to the Tech Money Podcast, where the worlds of technology and personal finance collide. Hosted by certified financial planner, speaker, blogger, and self-proclaimed personal finance nerd, Malcolm Etheridge. Each episode aims to make you just a little bit smarter about your money. All from the perspective of the tech professional without further delay here's your host.

**Malcolm Ethridge:** Hey, there listeners Malcolm here, and on today's show, we're talking about personal finance. More specifically, we're talking about the importance of managing your own personal finances as a startup founder. On today's show, we'll be breaking with our normal format a bit. Occasionally, we receive programming notes from our listening audience that are so insightful that we have to take heat and give the people what they want.

And recently we got an email from one of our listeners that was so well-written and so insightful that we [00:01:00] decided we better jump on it and design an episode around it. So that's what we'll be doing today. My producer, Eric, with an A, has some questions queued up for me, all shaped by that listener’s email.

And we'll talk through them one by one. So, with that, Eric, with an A. Why don't we get started?

**Aric Johnson:** And when you said we're going to give the listener what they want, I thought you were saying, "That's why I'm on the show because it's like this build." I mean, you know, we take the heat, and, you know, they wrote this email, like, "Bring Eric back and never mind."

**Malcolm Ethridge:** No, we haven't gotten those kinds of requests, but I'm sure there are some people out there that say that voice. I need more of that voice.

**Aric Johnson:** Eric with an A fan club.com. All right. Anyway, all right. Yeah. So, it's interesting because I love this topic. If you're the founder of a startup, there are so many moving parts, right?

It's hard to keep things straight, especially in the early days of a startup. I've got to ask what is the most important [00:02:00] thing for a founder to know for this topic?

**Malcolm Ethridge:** Yeah, and to be clear when we say startup, we're not even necessarily just talking about like the 25-year-old engineer coding away with a hoodie and a dark corner that all of the Silicon Valley related shows will have us believe as who starts companies like, or we're talking about people starting towing companies.

Roofing companies, accounting firms, and anything else. Right, when we use the word founder. So, we're literally being as broad as we can to cover as many different areas as we can. but also keeping in mind that our audience is probably made up of quite a few of that 20 five-year-old in hoodies hacking away at their computers and trying to bring it all together.

But, from like a general sense, I think the answer to your question. Cash is king; that's really what it comes down to. In business, we always talk about how access to capital is like oxygen for a young company, right? Looking to make a name for yourself and trying to get sales. [00:03:00]

You need cash that keeps you alive long enough to do all the other things that you want to do. Right? So, cash is king for two reasons. One. Because as a founder, you need the ability to cover your own personal expenses long enough for the business to catch fire and begin to drive revenue like I was talking about.

And I know we'll touch on that more later. So, dig too deep in that area. But the number two reason that cash is king is because you have to invest enough in the business personally to get to that proof-of-concept point, whatever that point is for you. That's known as the MVP, right?

The minimum viable product or in tech folks even referred to it. maybe as getting to beta, right? So, the exact dollar amount will depend on how much cash-intensive your industry is, right? For instance, if you're manufacturing a product, you'll need access to a factory to build a working prototype and molds, possibly file for a patent, and on and on.

But if your product is a piece of software, right, you are. [00:04:00] code or hacking away on your laptop, and that's all you really need that in a quiet place to work. Your cash needs aren't as high. So, it all depends. But the point here is to accumulate as much cash as you possibly can before making the leap to starting whatever the venture is.

**Aric Johnson:** Well, that's actually plays right into my next question. Because beyond that cash usually businesses, they have to borrow. Right. They've got to borrow to grow, unless you're Elon Musk, which is the last episode; if you haven't heard that episode, go back and listen to that.

Because he was talking about Elon Musk and how he just buys Jimmy John's all the time—or, no, I'm kidding, not Jimmy Johnson. I think it's Twitter still, right? And it could be completely,

**Malcolm Ethridge:** They have sandwiches on the models.

**Aric Johnson:** Jimmy Twitter anyway. Okay, so most businesses and most people have to borrow to start to be able to grow, besides having that proof of concept and that little blip that you just gave us. How do founders establish [00:05:00] credit in those early days? so they can borrow.

**Malcolm Ethridge:** Yeah, and so when I say cash is king, I am talking about access to cash, too. Right? So, we're all talking about credit. It goes hand in hand. How much have you saved up on your own that you can use without any, I won't say without any consequence, but without having to pay anybody for access to it, but then on the flip side,

Once that's gone, you still need access to cash in order. And so, in those early days, your business doesn't have any credit like you're talking about. And so, you, as the founder or founders, if it's more than one of you, are the credit. That's why it's imperative that you protect your personal credit as a founder as well.

Right? Especially in those early days that we keep talking about, because in the first three to five years of operation, your business doesn't have a credit profile separate from you. And since your ability to borrow in the name of your business depends almost solely on your own standing as an individual creditor, you have to protect your personal credit.

Like it's your baby like that, [00:06:00] that is probably the thing that goes overlooked quite a bit. You started the business, and you burn through the cash that you put to the side, whether it was an investment portfolio or a 401(k) you cashed out or whatever you decided to do. Then you decide, okay?

It's time to go and try and secure a loan. And haven't actually thought to make sure that there aren't any charges against you on your credit, or there aren't any late payments that show that are bringing your score down, or any of that kind of stuff that would hold you up. That's also really important to get clear from the very beginning days of business not just when you're going to apply for the loan.

That said, right. Let's assume that you are headed in the right direction. One of the important things to do also from the very beginning is to establish a business credit file to begin to separate yourself from the company. So, the thing I always recommend to my clients whenever they strike out on some new venture is to [00:07:00] open up a new credit card in the name of the business.

The moment they apply for an EIN and open a bank account. So even if all they do is pay their government registration fees and small things like that, it nonetheless helps them establish a timeline for that business credit profile. Also, it's important to understand how unlikely it is that any bank will be willing to lend you any real money in the first few years without any personal guarantees.

So even with the best credit score, they'll likely want you to put up your car, house, your dog, anything else of value. They want you to put it up as collateral. So just be prepared for that conversation. When you do go to a bank asking to borrow to grow your business.

**Aric Johnson:** So, kind of playing off of something you said earlier, you said it's important to limit your personal expenses.

If you're talking about running a business, why?

**Malcolm Ethridge:** One of the reasons founders don't make it out of that initial incubation phase is because of the drag on their own [00:08:00] personal expenses, their own personal expenses are holding back their ability to invest in the business. And so those first two or three years, it's critical to be able to reinvest profits back into the business in order to keep growing.

But if you're constantly having to pull dollars out to pay yourself a salary, there's no reinvestment in growth. So, you choke off the business's ability to grow enough to be able to pay you a decent salary down the road. And the thing collapses before it gets going. So essentially, it's true in service-type businesses.

You know, maybe you're producing software, some sort of you're building an online course or something, or that sort of thing. There's not a lot of overhead there, right? It's just you, the owner. So, if you've saved up enough and cut your debt down to almost zero prior to launching, it basically means that you can be using the revenues you generate to reinvest in growth.

And that's it. But again, if your personal expenses are so high, that Even though your overhead in the business is fairly low because your [00:09:00] laptop is your most expensive cash outlay. Then you've still, like I said before, you've choked off your opportunity to grow long-term. So, the lower you keep your household expenses, the more can go toward growing the business and keeping that oxygen in the lungs of your business, to continue the analogy, versus cutting it off.

**Aric Johnson:** Yeah, well, I think that that actually leads right into probably with all the folks that I've talked to that have started their own businesses. One of the biggest questions they have when they first start as did I, "How and when should you pay yourself as a founder?"

**Malcolm Ethridge:** Yeah, that's, that's a crucial question to ask and decision to make right. In those early days, as I keep talking about it, it's not uncommon for you not to make any income at all from the business that happens all the time. You may have separate savings that you're living off of. Maybe your spouse or partner has agreed to carry the load for a while while you're getting started, [00:10:00] or, you know, maybe you're couch surfing and that's why you don't have any real expenses.

but once you decide to pay yourself something it's important to be consistent in not only consistent in how much you pay yourself but also consistent in when you pay yourself. It's important because if you were ever to go to a lender or an investor asking for cash, one of the things they'll want to know upfront is how much of the company's revenues are going to pay the owner.

So. You won't know how to answer that question. If you're sporadically transferring money to yourself here and there and in different amounts each time, and so it's important to make sure it's uniform, it's also important to invest early in a solid bookkeeper and accountant because they can help you properly account for your salary and also make sure that you're paying the right amount in estimated taxes.

And you can't really afford to get on the wrong side of the IRS. At the same time, you're worried about getting sales, scaling up, and keeping the business going. And so, it's important just to make sure you're doing it right [00:11:00] from the beginning so that you don't have to go backwards and pay for doing it wrong.

**Aric Johnson:** Yeah. Well, a lot of people are able to raise venture capital. You actually had guests on the show and spoke about that. How does that change things when you're able to raise or you're raising venture capital?

**Malcolm Ethridge:** Yeah. So, when you raise a really any kind of venture, but especially once you get past the angel stage, you typically will set and agree on a compensation structure with your board.

So, your board is made up of some of your largest investors, right? Typically, they don't want you worried about money. They want you focused on running the business and returning value to shareholders. So, by the time you get there, there's venture money now involved in this conversation. They're factoring a reasonable salary for the leaders of the company into the monthly cash burn projections.

So, with that said, some large percentage of startups fail, [00:12:00] right? Whether it's 60, 75, or 90% of startups that'll fail, it becomes once again important to resist the temptation to upgrade your lifestyle commensurate with your income, right? As we're talking about this, it just occurs to me—as I'm saying—to keep your expenses down.

That doesn't necessarily speak directly to everybody, because once the venture dollars come in, you start taking a real salary. You start feeling a little better. You've been holding off on all these other things you want to do. You want to make sure that you resist that temptation, and I know.

to upgrade your lifestyle. Your income's now come up; you're feeling good. Your shares are actually worth something now, but you just never know. Right? It's better to have a company that fails, and you have a, I don't know, $3,000 a month mortgage and your company fails. And you've got a $3,000-a-month mortgage to figure out what to do with versus your company fails.

And you've got a six or seven or eight or 9,000. A [00:13:00] month mortgage to figure out what to do with, and even with that, like on a separate but related note, I've talked to clients or would-be clients in my day job in the past who owned a business and told me that they took like a 15- or 20-year mortgage because their income was high, and they wanted to pay off the house quickly.

Right. This is a complete diversion, but we're saying here. I would recommend the opposite. That's as dangerous as what most people should be doing right now. More to my point about keeping your personal burn rate down, you want to take the longest mortgage term. You can, even if it means the interest rate will be a little higher on paper, because it means that if it hits the fan one day, your required monthly mortgage payment is as low as possible.

And you can throttle down your spending a bit while the storm passes, right? You can always pay off the mortgage on an accelerated schedule. If you choose to, just calculate. I dunno what a 15-year payoff would take and then make larger payments, than what's required. But that also effectively reduces the amount you end up paying in interest anyway.

[00:14:00] So that whole equation about the rates being different It doesn't really bother me as much, but you're only on the hook in that case for the lower number. If the nightmare scenario I'm alluding to does come to pass. And so, as we're talking, that just popped out to me because that's another one that I see.

My salary has come up. I'm buying a bigger house, and not only am I buying a bigger house, I want to get it paid off as quickly as possible. And match that against what I just said about the high percentage rate of failure among startup founders, and that math just doesn't add up. And so, I always recommend that people keep the required payments as low as possible.

You can be as disciplined as you want and make excess payments, but just this allows your personal burn rate to be as low as possible. Since your business's burn rate is going to be pretty high.

**Aric Johnson:** Yeah, I'll be honest. I'm really interested in your next answer to this question because the nature of the question. and I'm just curious what your thoughts are because I have my own, and they're totally wrong.

I'm [00:15:00] sure. So, let's see if we're on the same page here. What about saving for retirement? How and when should you save for retirement as a founder?

**Malcolm Ethridge:** Yeah. So, this is I get your framing. Cause this is typically a tough question for founders to wrap their head around.

Right. It's tough to imagine taking money out of the business to invest in some other company or companies since you have access to public exchanges, but you've got no control over those other companies. You have complete control, in a sense, over your destiny inside your own company, or at least that's the way you feel.

People don't actually explain it that way, but that's the impression I get. It's a general attitude of, "Why would I invest in stocks or some other asset class paying me five, 10% every year when I could reinvest back into my business, which is growing at 20 or 30 or 50% year over year?"

That's kinda what I get, even though people don't put it [00:16:00] in those words. And I think, you know, in the early years, there's some real merit to them, right. In the first five-ish. If your business is growing, it's likely rapid and double-digit growth because you're working really hard to get this thing going and keep it going.

And fighting like, you know, what to keep the doors open. But once things settled down and you're doing regular business and you start to get a handle on your numbers and there's meaningful KPIs to track, that level of growth is less likely and less sustainable. So, at that point, it couldn't hurt to start putting money away.

Your future self, just like any other worker at any other company. Right. Whether we like to admit it to ourselves or not, none of us can work forever. And so, you can't go back later and recapture that time you missed out on where those dollars could have been in the markets compounding and growing and growing.

And so, it's just important to recognize where you are in the business life cycle or the founder's life cycle. And make a determination of whether there's a point there's enough excess free cash at this point that I should be paying myself a little bit more. We talk about pay yourself first all the time, in the form of retirement savings now, instead of keeping it all in the business and being at the mercy of that liquidity event down the road someday as the thing that's going to get you that return that you use to pay yourself ultimately.

**Aric Johnson:** Yeah, well, I'm feeling pretty confident because I think we were pretty much spot on. I was thinking about a five-year timeframe. And then the other piece of it was exactly what you were saying with, you know, how much you're investing into your own business. You would never, ever, ever recommend that somebody takes their entire.

You know, every penny, they have to invest and invest in one company. You wouldn't put it all on an apple. You wouldn't put it on Microsoft, so you certainly don't want to put it all in your business because something can happen. So, all right. feeling pretty good about that. Okay. So now let's talk about how they should invest, right?

I [00:18:00] know that you can create 401(k)s for your business or there's other options out there. What is your recommendation?

**Malcolm Ethridge:** Yeah. So, kind of like what we just got done talking about. There's no right answer here. And if there's a theme to anything I ever talk about on this podcast, I always try and impress upon people that financial planning is really part art and part science, right?

There's no A, B, one, zero binary decision to be made on most things. It's a matter of individual preference, I guess. That's how I just start off by saying, but I will say I've noticed that many founders are Particularly risk averse with their investments outside of their own company and is likely because they know they're taking a good deal of risks starting a company in the first place.

And so, they don't want to take on even more risk with the rest of their money, right? Like that's a lesson I actually had to learn myself, like back in the day at a completely different firm earlier in my career. [00:19:00] I worked with a client who found that a pretty substantial tech consulting firm was, you know, making really good money.

And he had almost all of his money in municipal bonds, like $5 million worth of municipal bonds. And I couldn't understand it. So finally, I just asked him like, what the heck is this, this guy's, in his early forties at the time back then at least. And I thought he should be owning something like 70 or 80% of stocks at a minimum.

Cause that's what I had been taught in financial planning school. So according to all my textbooks, this is how this guy should be living. So, when I asked him, he told me, pretty much flat out, that I take on the risk of running the business and I own it every single day. And so, I'm pretty confident.

It will be worse if something big one day, but it helps me sleep better knowing that all of my savings won't disappear no matter what happens in my business. And so, it was such like an aha moment for young little me early on in my career that People's approach to risk are different depending on where they are in that business [00:20:00] cycle that I was talking about.

And so, it helped to frame the way that I think about like making recommendations to business owners about how to allocate their retirement savings. And so, to answer your question a little bit more directly, the answer is, like, it depends. It really just depends on the personality. It really depends on the timeline and everything else.

And so, it's just tough to really give like a general blanket answer to how everyone should be allocated because they own a business.

**Aric Johnson:** Okay, Malcolm, we talked about how a founder invests in their own company, right? especially at the beginning and then we've also talked about investing now into the stock market or 401k or IRA, whatever, you know, however, they're doing that.

How do you know when or whether you should invest in the stock market, or maybe the percentage of you should be putting into the stock market versus putting back into your business? How do you help somebody figure that out?

**Malcolm Ethridge:** Yeah, [00:21:00] that's a fair question. And I think it's on the same track as what we were just talking about regarding saving for your retirement as a founder, right?

Taking money out of the business to invest in the stock market could be in your 401(k), or it could be in a regular brokerage account. It could be a bunch of different ways, but like I recommend that all founders start to take some chips off the table. As soon as they reasonably can. It's up to you to determine when that is like your point of getting to free cash flow is different from the next person.

But in years, you know, I don't know, 2, 3, 4, 5. You're probably reinvesting every single dollar. You can back into the business just to keep it growing. But if you're lucky that comes to this point where there actually is some free cash flow to speak of. And at that point, you want to start looking to diversify, right?

Your largest investment in your portfolio is your business, as we've been talking about. And so, if all of your eggs are in that one basket, something like the next COVID could come along and completely up into you. But if you're [00:22:00] strategically pulling out some of that excess free cash every year and investing it elsewhere, that's you taking some of your chips off the table and being a little more prudent, right?

So that way, the next COVID comes along and wipes out your business. But you have your other investments to cushion the blow, whether it's in your 401k or a brokerage account, or in some real estate you've been buying up or in CDs in the bank or a $5 million, a municipal bond portfolio, whatever suits your fancy, it's just important that you start to take some of those chips off the table to have some diversification after.

**Aric Johnson:** All right. Well, now it's time to talk about insurance because you and I have actually had this conversation off air before about founders, or, you know, people that are starting businesses. They need to take insurance conversations seriously, but they rarely do, so now it's time to take it on the air and tell the people what they need to hear.

So, tell us about insurance. What's so important?

**Malcolm Ethridge:** Yeah. I was gonna make a [00:23:00] joke and say, your favorite subject, but like you, you are one of the weird people who actually does get Interested in excited talking about insurance

**Aric Johnson:** Anything I could do for protection, I’m all about that.

**Malcolm Ethridge:** It's not even a joke if I had said it that way, so I just let you roll. But insurance is important, right? For the founder, for sure. to protect their legacy and make sure their family and whoever depends on them financially receive the fruits of their labor. Right. If something were to happen to them, but also like life insurance to protect your partner's financial aid against your passing, it doesn't Make sense for you guys to build all this together and then your partner passes away and suddenly you're accountable to their kids or to their spouse or whoever else for their share of the business. And maybe this isn't the time to be selling a stake in the business to make them whole or whatever.

And so that's one important piece of it, but it doesn't stop there. It's also disability insurance for founders to protect [00:24:00] their income potentially Guard against some unfortunate accident, right? Doctor seemed to be like the only group as a monolith. If I can paint with a broad brush, who really grasps this concept across the board, right?

If I'm a surgeon, something happens to my hand. I can't cut. What does that mean for my livelihood? not willing to take that risk, but tech founders and any other type of founder should think about it that same way. Right? You've taken on enough risk, starting a business from scratch. When you get to the point that the business has value worth protecting, maybe that's two- or three-years in.

You're no longer just trying to make it from week to week at that point. Right. You're still growing. You're still in growth mode, but that's when I think it's time now to think about protecting what you've built.

**Aric Johnson:** Yeah. Let's face it. We can all be, you know, Dr. Strange and become a super wizard when our hands are jacked up.

So, I get it. I think that's right on. All right. so, what else we're getting low on time. This has been a [00:25:00] great podcast, but what would your number one, if we have to end this here, what's your number one best piece of advice for founders that we haven't covered yet?

**Malcolm Ethridge:** Yeah, I said it to some degree, but I'll reiterate it here just because I like driving the point home. It's the one thing I find myself repeating all the time to our business owner clients in my day job as a financial planner. Once you've established yourself and you've been at it for a while, you're no longer just trying to prove a concept, keep the lights on, make payroll, and all those other good things.

It's really important to start thinking about taking some chips off the table, and not even I said that wrong, because it's not even a matter of thinking. It's time to start taking some chips off the table. Rather than waiting until this fantasy day that many small business owners have in their minds where, you know, a guy walks in the front door one morning carrying a gold briefcase full of cash and makes you an offer to purchase your company that you can't refuse,

You know, I'm being a little bit hyperbolic here, but [00:26:00] instead, start to plan for your exit now by either taking a few dollars every year as a distribution from free cash and transferring it to a checking account or a brokerage account. Dumping it into your company, 401k plan, or whatever you decide to do, or maybe you also decide to sell off a small piece of the business and plan sales along the way.

So, you're a small percentage you're selling, and I don't even mean necessarily selling to a person. There are ways to actually sell a small percentage of the business to your employees or sell a small percentage of your business to a trust and all those kinds of things that you can do. This is always going to depend on the structure and nature of the business.

But the sentiment is basically the same, right? I'm not encouraging anybody to abandon ship and start looking for the exits tomorrow, but I am encouraging you to. Start to extract some of the value you've created now while you can. So that if the next crazy thing happens and knocks you [00:27:00] back on your heels, you can actually.

still go through with the exit that you had your heart set on, and it won't be an all-or-nothing type of decision. like it was for so many business owners back in 2020. So that's it. I'm off my soap box, and I won't beat the dead horse any better, but you know, it's just that I see it a lot.

You get 10 years down the road and the man with the golden briefcase hasn't shown up, you didn't peel off, and a few million dollars here. When you had the chance, and now you're scrambling to try and find the right option. And so, I'm encouraging people to do it from this side, instead of waiting until you have fewer options.

**Aric Johnson:** Great advice, great advice listener. Here's the thing you're going to hear me say an email address here in just a little bit at the close of the show, but I'm gonna give it to you again right now, because like Malcolm said, the episode came from a listener, emailing in and bringing this to Malcolm's attention.

So, he could do this [00:28:00] subject specifically. And that email is podcast@tech-money.com. so, write that down email in Malcolm would love to hear from you. but Malcolm, before I talk to the audience any further, thank you, man. This was great. I really appreciate it. I learned a lot again.

**Malcolm Ethridge:** Yeah, thank you, man.You know, you and I have these conversations off the, off the air quite a bit. But as you have pointed out to me before, other people want to hear it too. So, I'm glad that we did have that person that brought it to our attention that this is an area we never talk about. and hopefully folks will bring us some more good ideas in the future.

**Aric Johnson:** Absolutely. And with that, thank you, listener, for tuning in and listening to the tech money podcast with Malcolm Ethridge. If you have not subscribed to the podcast yet, please click the "Subscribe Now" button below this way when Malcolm comes out with a new podcast, it'll show up directly on your listening device. We humbly ask that you share this podcast and please leave a review, as this will help others find the show.

You can connect with Malcolm on social at Malcolm on money. [00:29:00] We'd love to hear from you, as we said, and we'll answer any questions you have. Let me rephrase that. Malcolm will answer any questions because I'm not going to be able to do it, but you can do so by emailing those questions to podcast@tech-money.com.

Thanks again for listening today for everyone at Tech Money. Our hope is that this show helped make you a little smarter about your money.

This has been the tech money podcast for more information on today's topic to review the show notes. or to catch up on past episodes. Be sure to check out Malcolmetheridge.com/podcast. And if you have an idea for a show topic that you'd like us to cover or you want to send us feedback, the web address again is malcolmetheridge.com.

You can also find Malcolm across all social media platforms at Malcolm on money. This episode was written and created by Malcolm Etheridge with the production, the editing and sound controls powered by proud mouth. This has been a Malcolm on money Original. [00:30:00] Thank you for listening.

The information shared in this recording and by its guests represents the views and opinions of the guests and does not represent the views or opinions of the hosts. This content has been made available for informational and educational purposes only. This content is not nor is it intended to be a substitute for professional financial advice.

It is always recommended that you seek the advice of your financial advisor or other qualified financial service provider. With any questions you may have regarding your personal financial situation.