



Sound Financial Bites 075 - Marek Omilian Episode Transcription

Welcome to Sound Financial Bites, where we help you with bite-sized pieces of financial and life knowledge to help you design and build a good life. The knowledge that has been shared from stages at conferences, pages of national business magazines, and clients living across America, our host, Paul Adams, now brings directly to you.

Paul Adams: Welcome to part two of our Sound Financial Bites interview with Marek Omilian, a man who's built the company that values other companies and has built enough infrastructure to actually go on an 11-month around-the-world sailing tour. In the beginning of the podcast today, he's going to share with us what he's been doing on his own personal balance sheet outside the business as well as talk about how he's prepared the business for this journey, and then tell us a little bit about the worldwide sailing race that he's participating in.

If I could ask, if it's not too personal ask on the open podcast, given your CFA background, your summit of values companies, what kind of assets do you invest in on your personal balance sheet?

“Minimizing current taxes is one of the top objectives for me.”

Marek Omilian: I've got sort of very long-term investment horizon, but also extremely sensitive nature when it comes to taxes. And being sort of business owner, I'm in a pretty high tax bracket, so minimizing current taxes is one of the top objectives for me besides, obviously, generating respectable rate of return on the portfolio of assets at a particular risk. But, my philosophy has been -- I'm over 50 years old. My investment time horizon is still pretty long though, probably 20 years or so.

But, my asset mix has been almost one-third, one-third, one-third, and sort of low-risk, low-return fixed income assets, or to be municipal bonds or other instruments, and then we're third in US equities, emerging markets, and the final third in what I call alternative assets, which would include real estate portfolio of MLPs, Master Limited Partnerships energy stocks, which are, by the way, not very popular these days with the oil fluctuations, for instance. But, again, because I've got this long-term horizon and tax minimization objective, they're perfect assets for me because they're very tax advantageous and I'm not really worried about current fluctuations in something like the MLPs.

Paul: You mentioned that, along with the cash, municipal bonds, things like that that you use insurance there also?

Marek: Yeah, seven years ago or so -- I never really believe in life insurance. The commissions are high, I never thought of if I really needed that. I like to be self-insured. But, about seven years ago, I had a bit of a family situation where I thought, "Well, maybe, I should have death benefit," because we had two incomes. My wife and I both work. We had a two-income family. But then, my wife had to stop working to take care of one of the relatives, and I thought to myself, "Well, maybe we should have a death benefit in case something did happen to me.

But then, what really got me off the fence was when I learned about the whole life insurance was the whole strategy around, really, tax avoidance. I'm not sure I want to say it too loudly, but it's an amazing loophole to me that allows me to avoid paying taxes ever on capital appreciation of



Sound Financial Bites 075 - Marek Omilian Episode Transcription

the assets sitting in my whole life policy. What I do is I max out. There is a limit, unfortunately, I guess.

Paul: We teach that to our clients. It's called Telfer-Tanner Corridor, the max.

Marek: Yeah. There's a max that I consume every year, but I max out and I overfund my policy, which the overfunding amount is going straight to the cash value of my policy, and I use one of the mutual life underwriters to do this. It goes into cash value, which is earning the same dividend rate of 5%, 6% or 7%. I think last year was somewhere north of 6% annual dividend, which continues to compound and accumulate every year, and I don't remember the actual -- you may remember this certain age of the policy, or my age I can actually -- I mean, I can take the loan against the policy now against the cash value, but at a certain age, that interest on that loan becomes 1%, and it really becomes another, basically, like a private pension fund that I've set up for myself. It's going to finance mine and my wife's retirement, and when I finally pass, if that loan is still outstanding, it's just going to credit against the value of the policy. So, my beneficiaries will still receive the death penalty plus the cash value minus whatever the loan outstanding against the cash value.

“My asset mix has been 1/3, 1/3, 1/3 in low risk, low return fixed income assets.”

It's great, and the last couple of years, I've actually used it even more aggressively where I've taken a loan against the cash value, and I was able to deduct the interest on that loan, which by the way, the interest flows back to my account no matter what. I'm paying that interest to myself, except for the 1% that goes to administration off the loan, but I was able to then deduct that interest expense against other interest income as long as I used that loan to fund some of the other investments.

Paul: You had to track exactly where the money went so that when it went back, you could actually write it off. It gave you a pool of capital to be able to do other things with, buy another business, buy another investment, and then be able to put it back when it was convenient for you. But, now you've got a cash pool getting you a decent rate of return that doesn't have any taxes on it versus a cash pool at the bank.

There's one thing you mentioned that's probably -- we may have some listeners that wouldn't be familiar. When you mentioned it's a mutual life insurance company, that's versus a stock insurance company. So, when Marek owns that policy, it's going to pay back his policy. He did not do this policy with us. This is something that he had, and I haven't seen it. We've been talking back and forth a little bit up to the podcast about how he's been using it, and that's great. I think it's one of those tools that one of the biggest limiting factors and why I think the IRS allows everybody to do it is you got to think ahead, and just thinking ahead several years is enough limitation to keep most people out of that game.

Marek: It's difficult to really follow this on the podcast. I think whoever is considering this strategy should sit down with Paul, or their advisor, and kind of just look at the diagram of how the money flows, and how it needs to be documented, and all that. It's really once you had that in front of you, it's really super simple. One of the big sorts of watch out that I was looking for was you got to have a qualified interest income that you can deduct the interest expense against. You can't generate this interest expense and, say, deduct it from your ordinary income. It has to be a qualified interest income which I had from other assets. So, I was able to offset that quite nicely.



Sound Financial Bites 075 - Marek Omilian Episode Transcription

*“We’ve already
been racing
before we even
started sailing.”*

I've been sort of using it as a bit of a revolver type for the investments. I'm kind of carefully watching, making sure I have enough invested income to use this interest expense. But, really, the biggest benefit to me, the biggest no-brainer to me is the fact that I will never pay my children when they inherit the value of the policy. They will never pay any capital gains taxes on the dividends that this cash value is earning, which is phenomenal, which is amazing. I wish I could put more money into it.

Paul: We've gotten some inquiries of late with all the educational stuff we've done. We've not done a lot on the life insurance front, although we do help our client's structure some of those strategies. I'm just kind of looking at the schedule, and I think this episode right now is going to air about mid-August. One of the things I've talked to my team about, by the time this airs, we'll actually have some other resources people can get to on YouTube, etcetera, and those will be in the show notes. We'll get those built. Just like the attorneys and compliance folks review everything that we do, that will all be thrown up there, and we should have some stuff up by August, Marek, that will help people with that. I'm glad you were able to kind of explain it from a just practical point of view of how you've actually been using it.

Marek: The other big thing for me is how to treat this asset class is this cash value of the life insurance policy as less risky asset. My understanding is that my mutual life insurance company, they invest mainly in treasuries, in real estate, very long-term sort of lower-volatility assets. So, my portfolio of muni's, I've got a lot of portfolio of muni's that's earning maybe 2% tax-free, whereas this cash value of life insurance policy is earning 6% to 7% tax-free as well, and it has a very similar risk profile. That's kind of really what I like about that is when I think about this whole sort of spectrum of risk-return for different asset classes.

Paul: Yeah, that's a great point. We've often pointed people can search the internet and find a white paper by a gentleman named Dick Weber who wrote a white paper called Life Insurance as an Asset Class, and he talks about it being non-correlated, or uncorrelated, because even though our bonds go up and down in value, depending on the prevailing interest rates, that book value asset of the life insurance actually is a steadfast tool and it's actually guaranteed. You'll notice that even banks don't get to say that something is guaranteed. They have to say it's FDIC-insured, and that is almost an exclusive the word "guarantee" in the financial world to insurance companies. They get to say that the cash value is guaranteed.

That's great, and now, if we can, let's shift here in our last window here. We've got kind of have an idea that people want, if they're going to sell their business, they've got to be able to start some time ahead of that to work on those value drivers and have an idea of getting it valued. When it comes to evaluation practices, if somebody has a business that they think is worth four, five, six million, or maybe even all the way up to 80 or 100 million dollars in value, how often would you suggest that they actually get a valuation done on the company?

Marek: The standard consulting answer is, "It depends." So, it depends if there's multiple owners, one owner...

Paul: I thought the standard consulting answer would be, "As often as possible but..."



Sound Financial Bites 075 - Marek Omilian Episode Transcription

“I grew up sailing. I was in Sea Scouts.”

Marek: Right, and that's why we're creating those values for a tool, which actually will have the valuation attached such that, unfortunately, I've got only prototypes in the Excel. We haven't started coding this, but it's going to be a web-based tool where one could come in and enter some of the information about their company, including those 50-plus metrics, and even play around, or do some what-if analysis. What if you want to improve this one metric by 10%? How would my value change? And that value indication is going to be fairly accurate. They can do the valuation multiple times a day just by themselves without our help. Our help is building that tool.

Recently, we actually started working with a company that has two shareholders. They rewrote the shareholder agreement. They've been in business for 14 years. They're really very interested in knowing what their value is and really building into their shareholder agreement, maybe, some sort of either clause or prescription on how often the valuations should be done and how it should be done.

On the other hand, we have several clients where they have 200 or 300 shareholders or members, if it's an LLC, and the shareholders, from time to time, or actually quite frequently, they want to buy, or sell, or exit, and we're doing evaluation once a year to facilitate that transaction to happen. It really varies a lot on the circumstances, and I would say, probably, it varies a lot on the number of shareholders the company has.

Paul: If I could add, if you have the shareholders -- let's say you get the agreement done and one valuation is done, and now you know what some of the metrics are, etcetera. When people want to update their valuation, am I wrong that it may not be near the amount of pain and heavy lifting it was the first time around if they did want to get it done every year or every two years?

Marek: Yeah. There's definitely a bit of a startup cost or a fixed cost to get things organized. Although, the tricky part of it becomes when we do these valuations every year, the tricky part becomes reconciling the values between what happened, what was the value a year before, what is it now and why, what are the drivers. Once we build this value score valuation tool, we're going to be easily reconcile what changed in terms of the value drivers. But, when we do this, it will be in a static mode where we're asking for some financial information and then we get it every year, then we need to go through this a bit of a laborious process of reconciling why the value changed.

Paul: Very good. To finish us out here today, Marek, I know my audience is going to be incredibly interested. I was just sitting with Marek, we were in an entrepreneurs event up in Vancouver, Canada with the Entrepreneurs' Organization, and he said something casually about, "Oh yeah, I got this sailing trip coming up." I was like, "Oh, you sail?" and he says, "Yeah, this is going to be an 11-month long race around the world with groups of people who pay to do this." You're on the water for seven months, four months in ports around the world like.

One, I think what my listeners would be most interested in is how did you set up your business such that you could pull this off, and two, what are you doing with your family this year? Because, you leave in like two weeks, three weeks. You'll be on the boat when this podcast publishes.

Marek: Probably. The race starts on August 20th in Liverpool, UK. The gun will be fired at 12:30, that's when the boat starts racing. So, if anybody wants to come and see 12 identical clipper,



Sound Financial Bites 075 - Marek Omilian

Episode Transcription

70-foot, 35 ton boats with 20-plus crew on board in each boat start racing, mark the date August 20th in Liverpool. Then, if you can make that, you can make, maybe, the race finish also in Liverpool. That would be on July 28, 2018. But, for those of you who are in Seattle, there's a better tip. The race, actually, is coming for the second time ever to Seattle, and it's going to be here, probably, the second half of April 2018. Seattle is one of the stopover ports. One of the 12 boats is actually sponsored and named after Visit Seattle, which is a government organization promoting tourism in Seattle. So, there's a Visit Seattle boat...

Paul: Clipper Round --?

Marek: Clipper Round the World.

Paul: Not around. Round without "a". If you want to look that clipperroundtheworld.com, you can actually see these boats, and it is incredible looking. Did you have a lot of sailing experience prior?

Marek: I grew up sailing. I was in Sea Scouts. By the way, my boat has 60 crew. 10 of them circumnavigate, including myself, 30 of them do only one out of eight legs, and the remaining 20 do two or three or four legs. From all the 12 boats, there are over 700 crew that participate in this, and about 40% or 50%, or at least 40% have never sailed before. So, this is very much an adventure for them on top of sailing. In order to participate in the race, everybody has to participate in four weeks of rigorous training in company facilities either in UK or in Australia. Pretty tough four weeks of training. A lot of people actually change their mind after week one or week two. I just heard we potentially had somebody try to change their mind, but then reconsidered after week four of training, because it was pretty tough. It's a race, so those 12 boats race against each other, and as you said, Paul, about two-thirds of time of those 11 months are on the water, about one-third in port.

First leg goes from Liverpool to Uruguay, which is a pretty long distance. It's one of the longest legs. It's going to take 30 to 35 days. But then, if we get there in 30 days, then we'll get to relax for 14 days. If we get there in 35 days, we'll only have nine days. The starts are sort of fixed, and so it really pays to go fast. I can tell you that for every 10th of a knot, knot being a mile, nautical mile, in speed we get to stay in port for 20 minutes extra. It really pays to go fast.

Going back to your question, I had to kind of sell this to my family, create a business case for them to let me do this, which I'm very grateful for. In terms of business, this is, again, one of the factors in our 50-plus or so metrics is the business succession plan, or the succession plan. If something happened to me, can the business continue to run, function, and is there somebody that's going to take care of the business? In my case, professional services and my clients? I do have somebody who's going to be running valuations and somebody else who's going to be running the business case work, and I've been sort of working with the two of them for the past two months, transitioning my work as I'm getting more involved in preparations for the race.

Preparations started, actually, two months ago, or a month and a half ago when all the crews were allocated to all the boats, and we started working feverishly on preparations. My skipper, who is the youngest skipper ever, she is 23 years old. She's going to be 24 in three weeks. She had a lot of wisdom in picking me as her team coordinator, which is sort of the Chief of Staff,



Sound Financial Bites 075 - Marek Omilian

Episode Transcription

Executive Assistant, call it whatever you want, and it became, really, a full-time job for me in last couple of weeks, organizing everything, dividing the crew into different groups. There's at least 20 or 24 or so workloads that we have going right now that I'm trying to make sure that everybody's engaged and working on. We've already been racing before we even started sailing.

Paul: Wow. I think if you're a business owner listening to this, I think you hear a lot where business owners feel like they could be gone a long time from their business and it will still do okay. I think, for all of them, you are setting a new bar, and hopefully, we'll get a chance to interview you while you're in port at one of these places and be able to have you on the podcast again just to talk a little bit of how it's going, what's going on with the business, all that, because I think that idea of could you really be not just, "Oh, I've decided to live in Spain for 11 months where I have high-speed internet and a webcam, but I will be in the middle of the ocean for seven months or close to the middle of the ocean for most of seven months where my job is to be the chief of staff on a boat that's working to win a race," very different.

Marek: Absolutely. At some point I might consider getting my own satellite communication device so I could be in touch with the family, and business, and all that, and the race organizers actually came up with a good plan or sort of good option to that, and what they're offering for \$20 or \$25, I'm going to buy 5 megabytes of data I can use in one month. I was told that 5 megabytes is good enough.

Paul: I'm assuming that's 5 gigabytes.

Marek: No, 5 megabytes, which is good enough for 101 page emails, no attachments, no pictures, and honestly, I'm not even sure I'm going to be able to use that. I'm going to set up a separate email account where somebody can email me absolutely most urgent questions or items if they're absolutely not sure what to do with those. I may try to respond to that. But, on the other hand, I'm going to have a very limit time to do this, because I'm going to be getting up and going to sleep three times a day in a pretty tiring watch system that goes four, four, four hours at night, and six and six hours during the day.

Paul: If I may, just one place that I want to leave this, paint the picture for people that this is not a leisure thing. You're not kicking your feet up on deck like a Viking Cruise. How many calories a day are they budgeting for every crew member to eat?

Marek: 5,000 calories a day is going to be the norm. By the way, we have this huge, ginormous workbook that's full of macros that spits out the menu, the recipes, and the shopping list, and the caloric value, and the budget, and it's all very nicely optimized. So, 5,000 calories a day and people still manage to lose weight, actually, during the race even after. It's physically grueling, mentally it's grueling. It's really a race. People may be familiar with those who are into sailing. They've seen, obviously, America's Cup where they've seen Volvo 360 Race, which is also around the world race by professional racers. This is the only amateur race that's available. If anybody has any questions, reach out to me. I'd be happy to tell you more. There are all kinds of lectures, events about the race. There's one coming up on July 12, but I think your listeners will miss that. There's all kinds of info.

Paul: We'll add to the show notes the actual Visit Seattle page where you're going to be able to



Sound Financial Bites 075 - Marek Omilian

Episode Transcription

read actual crew posts, it looks like, from what I was looking at online. Although, Marek, they got to get your picture up before --

Marek: Yeah, they have some glitches. They had my picture and then they took it off. I'm waiting to hear what happened. I'm also doing my own blog. There's not much there yet right now. It's all being set up. But the blog name is going to be Tell Tales, but Tell Tales would be the -- it's a kind of play on words, I guess. Its Tell Tales are little strings of ribbon or woollies in the front of the sail to indicate whether the sail is trimmed correctly. But, of course, in my case, it's going to be telling tales.

Paul: I like that. We'll get that also in the show notes so people can be watching that and keeping track of you. I can already tell that this is going to get a lot of questions. I think you probably said it a little bit enough about your investing that that's going to trigger a lot of questions also. This is great, Marek. I think I'm going to get some credible feedback on this podcast.

If you're listening, and you're interested, or need a way to engage with Marek and his organization, you can reach them at Value Prism Consulting, and that's at valueprism.com, and then of course, you're going to be able to get this incredible 50 metrics that drive value white paper at value.sfgwa.com. Marek, thank you again for your generosity and for being here on the podcast and just being so intimate and open about everything you've got going, and if you get that chance to break away, I know your family is flying in where a lot of your ports are going to be, but if you can get a little bit of time to come back with us, I know everybody would love to get an update.

Marek: Absolutely. I'd be happy to.

Paul: Very good. Take care. Thank you for being here today, and our hope is that, as always, this conversation today was a contribution to you as a business owner, as an executive just to help you think a little bit differently about life in business that it doesn't have to all be grind until you're 65. Here, Marek's taken 11 months, really, inside of a thriving business and career to do the kind of thing most people dream of being able to do, and our hope is that it just contributes to you to being able to design and build your version of a good life. Have a great day, and we look forward to having you on the next episode here of Sound Financial Bites.

I want to acknowledge you for taking the time to tune in to Sound Financial Bites. You stopped long enough in your busy day to reflect on your finances and your future to help you design and build a good life. Please take a moment to subscribe to this podcast and follow us on social media. You can find us on Facebook and LinkedIn. If you have a topic you would like to hear us discuss, please send us a note on Facebook, LinkedIn, SoundFinancialBites.com, or email us at info@sfgwa.com. Be sure to check out the show notes for links to any resources that were covered in each episode. For our full disclosure, please check the description of this episode, the description of this podcast series, or you can visit our website. Make it a great day.

Paul Adams is a Registered Representative and Financial Advisor of Park Avenue Securities LLC (PAS). Securities products and advisory services offered through PAS, member FINRA, SIPC. PAS



Sound Financial Bites 075 - Marek Omilian Episode Transcription

is an indirect, wholly owned subsidiary of Guardian. Sound Financial Group is not an affiliate or subsidiary of PAS or Guardian.

This podcast is meant for general informational purposes and is not to be construed as tax, legal, or investment advice. You should consult a financial professional regarding your individual situation.

Guest speakers are not affiliated with Guardian or PAS unless otherwise stated, and their opinions are their own. Opinions, estimates, forecasts, and statements of financial market trends are based on current market conditions and are subject to change without notice. Past performance is not a guarantee of future results.

This Material is Intended For General Public Use. By providing this material, we are not undertaking to provide investment advice for any specific individual or situation, or to otherwise act in a fiduciary capacity. Please contact one of our financial professionals for guidance and information specific to your individual situation.

All whole life insurance policy guarantees are subject to the timely payment of all required premiums and the claims paying ability of the issuing insurance company.

2017-44545 Exp. 8/19

Each week, the Sound Financial Bites podcast helps you Design and Build a Good Life™. No one has a Good Life by default, only by design. Visit us here for more details: sfgwa.com