

WEALTH CREATION CAN CHANGE YOUR FINANCIAL PICTURE OVERNIGHT



A Conversation With Karen Schmid: Making the Most of a Liquidity Event

We're in the middle of one of the most significant periods of wealth creation in recent history. Across technology, fintech, life sciences and other high-growth industries, employers, founders and business owners are experiencing liquidity events through IPOs, acquisitions and business sales.

Karen Schmid, managing director Family Office San Francisco, has seen this phenomenon unfold in real time through her work with individuals and families navigating these transitions. We asked her about what happens when wealth arrives suddenly, the mistakes people make, and how thoughtful planning can help turn a windfall into a long-term opportunity for both younger workers and more established entrepreneurs.

Karen, let's start with the basics. What is a liquidity event, and who might experience one?

A liquidity event is when an illiquid asset suddenly turns into cash or can be easily converted to cash. Liquidity events can look very different. You might have an early employee at a pre-IPO company whose compensation is heavily tied to stock, or you might have an entrepreneur who has spent 20 or 30 years building a business and finally sells it.

I recently had a client who sold a company he'd built over decades for tens of millions of dollars. That's obviously a very different experience from someone in their late 20s, 30s or early 40s who suddenly finds themselves participating in a successful IPO.

What they have in common is the emotional side. There's excitement, validation and sometimes relief. And then, almost immediately, the questions start: "What do I do? How do I manage this? What are my choices? What do I need to do right away?"

These are typically very successful people. They're doers. Their instinct is to make decisions quickly, and sometimes the hardest thing for them to do is slow down.

When someone comes into significant wealth, which decisions should they focus on immediately and which can wait?

One of the most important things is to surround yourself with the right team. You need strong tax professionals, estate planning attorneys, insurance specialists and financial advisors who are communicating with one another.

You have to ask questions like: "What tax strategies should I be thinking about now? Do I have an estate plan? Do existing documents need to be updated? Do I need additional insurance to protect all my assets now?" It is amazing how many people who suddenly walk into a big windfall don't even have a will.

From an investment standpoint, the first priority isn't maximizing returns. It's protecting what you just accumulated. I generally encourage people not to make major investment decisions immediately. Put the money somewhere safe, take a breath and give yourself time to build a long-term plan.

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It is important to be aware that there's a fine line between doing nothing and doing too much. People often don't realize that doing nothing is a decision, but it is. At the same time, moving too quickly can lead to costly mistakes. The goal is to find the right balance.

What are some of the mistakes you see people make after a liquidity event?

A common one is making major lifestyle decisions too quickly.

People sometimes feel an urge to prove they've made it. That can show up as a vacation home, a luxury car, or a purchase that looks exciting and meaningful in the moment but that comes with significant ongoing expenses and commitments. Sometimes certain purchases become status symbols.

There is nothing wrong with enjoying success. People should celebrate their success. They worked hard to achieve it! The key is to be intentional and make decisions that align with your values and your long-term goals.

I encourage people to think of a liquidity event not as the finish line but as the foundation for what is next for years to come. When you think about it that way, the focus shifts from reacting to planning.

You mentioned planning several times. Is there anything people should be doing before a liquidity event happens?

Absolutely. Some of the most valuable work happens before the liquidity event ever takes place.

A business sale after 25 years of building a company is not a sudden event. Even someone working at a pre-IPO company often has time to prepare.

That preparation can include tax planning, direct indexing strategies, estate planning, trust structures, insurance reviews and making sure you have the right advisors in place.

The reality is that what matters most isn't what you make; it's what you keep. That's particularly important in California, where taxes can significantly impact the outcome.

Let's talk about younger people who find themselves in this situation. How do you help someone who is earlier in their career handle a sudden jump in wealth?

I try to frame it as a foundation for the future.

This kind of wealth creates opportunity, but it also creates responsibility.

That doesn't mean you can't go out and buy a nice new car. It just means think carefully. Should you really buy the Ferrari?

For many people, especially in technology and other fast-growing industries, we are seeing individuals experience liquidity events early in their careers. For younger clients, this is not the last chapter. This event is maybe the end of the first chapter, but there may be many more chapters ahead. The goal is to structure things in a way that gives them more choices going forward.

When you say younger clients, what age range are you talking about?

Often people are in their 20s, 30s and early 40s.

That is why I encourage clients to spend time thinking about who they are, what matters to them

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and what they want this money to accomplish. Sometimes they struggle with questions involving friends and family. Should they help? How much? Where should boundaries be?

People often assume wealth planning is just about numbers when it's really about values, relationships, opportunities and sometimes guilt. Money is emotional and that's perfectly normal.

How do you help clients define those values?

One thing I talk about is conscious spending.

I like to separate wants from needs. Just because you have money to buy something doesn't mean you should buy it today.

At the same time, it isn't all about delayed gratification. You should celebrate success. Maybe it's about taking a trip you have always dreamed of, or maybe it's a new car. Maybe it's creating experiences with family or friends that you will remember for years to come. I also encourage people to think about their communities. We've helped clients establish donor-advised funds and charitable foundations so they can support causes that are important to them. When charitable giving aligns with someone's values, it can be incredibly rewarding. It can also be very effective from a planning and tax perspective.

If someone has always supported causes that are important to them, a liquidity event may allow them to support those causes in a much bigger way and make it a part of their legacy.

Another issue we see frequently is large investments in individual stocks—what we call concentrated stock positions. What are the risks there?

Concentrated stock is one of the biggest risks we encounter.

If you have your entire net worth tied to one company, that's too much! Even if you believe the stock is going to do great in the long run, it's still a significant amount of risk.

I often say I'd like a portfolio to be structured so that if one stock blows up, it's not going to make you poor.

The challenge is that people are often emotionally attached to the company that created their wealth. Maybe they built it. Maybe they've worked there for years. They believe in the business, so there's often a reluctance to reduce the size of their holdings.

Fortunately, there are different strategies that can help reduce risk and reduce the impact of taxes as we unwind the position and make it a more manageable size within a portfolio.

Charitable planning can also play a role in diversifying a concentrated stock position. If someone has highly appreciated stock, donating those shares directly to a charity, donor-advised fund or private foundation can be much more efficient than donating cash.

As I often tell clients, cash is the most expensive gift you can give. Donating appreciated securities is the same as cash to charities but may have more benefits for you.

Let's shift to entrepreneurs who sell a business after decades of work. What conversations do you have with them?

One of the biggest questions is always: "What's next?"

I don't really believe in retirement. I think more about the next act.

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Some people want to become angel investors or start another business. Others want to spend more time with family. And others want to become more involved in philanthropy or explore interests they never had time for before.

The financial side of planning should support those goals.

You've mentioned the importance of a team in this conversation. What role does an advisor play that clients might not expect?

I think of the advisor as the quarterback, or sometimes the CFO, for the client.

As an advisor, my role extends well beyond investments. It's about coordinating tax advisors, estate attorneys, insurance professionals and other specialists so everyone is working toward the same objective.

I don't have to be the expert in every area. My responsibility is making sure information flows freely among the experts so the client benefits from the best thinking available.

I also become a gatekeeper at times.

After a major liquidity event, people constantly approach with investment ideas, business opportunities and requests. Suddenly everyone has a great opportunity. Having a trusted advisor can help clients evaluate those opportunities more objectively and can relieve a lot of pressure.

Ultimately, it comes down to trust, communication and helping clients make informed decisions.

If there's one thing you'd want people to remember about navigating a liquidity event, what would it be?

Take a breath and take the long-term approach.

Don't focus on maximizing immediate investment returns. Slow down and focus first on protecting what you've built.

Take the time to prioritize what needs to happen now, whether that's tax planning, estate planning or developing an investment strategy.

Don't let anxiety rush you into decisions, but don't become paralyzed either.

The best plans usually aren't the most complicated. They're the ones that reflect your goals, your family and the future you want to create.

And remember one size doesn't fit all. The right plan is the one that's right for you.

Thank you for your time and insights, Karen!

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