5 Decisions All Responsible Entrepreneurs Make En Route to Financial Security

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Entrepreneurship inherently involves financial risk. That doesn’t mean, however, that entrepreneurs can’t become financially secure. Remember, your personal finances and business finances are not the same. Responsible entrepreneurs aren’t just focused on making their business succeed. They also take steps to achieve financial security in their personal life.

1. Create true separation between personal and business finances

Failing to separate business and personal accounts can create serious financial trouble in the long run. If the business were to fail, you would lose all the money that is also being used to pay your rent or any other expenses. Even more troublesome, liability issues could leave you on the hook for company debts or legal troubles.

Maintaining separate personal and business accounts ensures that even if your company runs into financial difficulty, your “nest egg” won’t be compromised. Paying yourself a salary from your business account can help increase this sense of separation.

Never use a business account (including credit cards) for personal expenses.

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2. Clearly define personal finance goals

While you may have established clear growth goals for your business, you can't afford to let personal finance goals be an afterthought.

In a recent phone conversation, Tobi Roberts, co-founder and CEO of City Creek Mortgage explained, "As a business owner, you need to plan out what you'll do with the salary you pay yourself from your company. After all, a big part of the reason why many people go into business is to support their desired lifestyle."

Continued Roberts, "Setting clear and meaningful goals will act as a series of guideposts to help you stay on track for reaching that lifestyle. Whether you want to move into a bigger house or buy a boat, setting a savings goal will help you better control what happens after you pay yourself."

Your personal finance goals (such as retirement or even building an emergency fund) can also affect how you structure your business's cash flow. You need to find a balance between paying yourself enough to live your desired lifestyle without creating a cash crunch for your company.

3. Create passive income through investments

"Making your money work for you" may sound like a bit of a cliche, but it's an important to-do for entrepreneurs trying

to achieve financial security. Continued investments in the stock market allow your money to grow at a much greater rate than it would if you left it in a checking or savings account.

As Investopedia reports, the more passive, long-term buy and hold strategy averages 12.1 percent returns on small stocks and 9.9 percent returns on large stocks, even when accounting for market crashes.

By simply putting money aside into an investment account each month, your money will compound, giving you an additional revenue stream beyond your salary. You don’t need to chase the latest meme stock to increase your financial standing.

4. Religiously track spending and saving

Managing cash flow is vital for any startup – and it is just as important for your personal finances. If you don’t understand where your money is going, you might find yourself running out of money as you try to attain a lifestyle you can’t quite afford.

Tracking monthly expenses is vital for identifying ways you can better use your money. This can help you identify things you should cut out of your life – like that gym membership you never use. Or, it can put the amount of money you spend on meals at restaurants into perspective.

Writing down how much you spend each month – and what you spent it on – makes it easier to compare your current habits with your long-term financial goals so you can make necessary changes. Quite often, small sacrifices now (like investing $50 toward an investment account instead of daily Starbucks runs) will pay big dividends later.

5. Plan for the unexpected

You never know what life will throw your way. This is just as true in your personal life as it is in the business world. And of course, unexpected negative outcomes for your business can have a tremendous impact on your personal finances.

While times are good, you should prepare for the future by building an emergency savings fund. Financial experts generally recommend that most people have emergency savings that would cover three to six months of living expenses.

Notably, those with a variable income or less stable employment — a category that many entrepreneurs fall in — are advised to have an emergency fund that covers six months or more. Contribute a bit of money to your emergency fund each month. This way, if disaster strikes and you are no longer making any money from your business, you won't need to liquidate investments or retirement funds to stay afloat.

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No matter what your business goals may be, you cannot make finances an afterthought. By taking steps to account for both your business and personal financial standing, you will have much-needed security.

Ultimately, financial security allows you to support the lifestyle you want to live while giving you one less thing to worry about in your hectic entrepreneurial life. Prioritize your finances early on so you can establish good habits that last a lifetime.

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