

Why Friends And Family Are Your Worst Business Enemies



Image credit: [bobbyriverstv](#)



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How a Handshake Can Destroy Your Business

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Every week our firm gets phone calls from clients around the country who have lost their money by investing with friends, family or neighbours they trusted.

In nearly every case, in the beginning there was a guarantee of unusually high returns with no risk, and of course the promises of success from a trusted relationship. However, by the time they call our office, the money is gone, their calls are being ignored and they need legal advice on what to do next.

In the worst cases, people have borrowed money against their own homes or used their retirement plan in order to fund risky investments and businesses in anticipation of higher returns, but now their nest egg is gone.

I am constantly amazed at how many people will invest or loan hundreds of thousands of dollars to their neighbour or fellow church member without getting anything in writing or security. I just hear the constant excuse: "I didn't want to hire a lawyer because it would have made the relationship uncomfortable and I trusted them."

Investing with people you know or who seemingly have a great reputation and track record may be comforting, but it has no bearing on whether an investment is sound or the documentation to protect you is sufficient.

In fact, I typically recommend my clients not invest with close friends and family. This standard practice has two important benefits: In the beginning, it takes emotion out of the equation and helps you to focus on the merits of the opportunity. On the backend, when things get nasty or go bad, you will not hesitate to aggressively protect your interests and go to court if necessary.

Most people don't like to sue their family and friends -- it makes family reunions, local sporting events, neighbourhood parties and church functions too uncomfortable. I strongly encourage you to think about this ugly feeling and follow your gut before investing or doing business with a close friend or relative.

This doesn't mean you can never invest with close friends and associates. I simply suggest you go into this type of relationship with your eyes wide open. Realize you're playing with fire and with a different set of rules. Here are some important guidelines to follow:

- In a partnership or transaction with a close personal friend or family member, emphasize the fact you want to consider all of the best and worse-case scenarios so there's a game plan and you won't ruin your relationship.
- Ironically, people use less documentation with friends and family when they should actually use more. Go the extra mile to even over-document the transaction so emotion is taken out of the equation.

- Beware of guarantees, aggressive sales pitches, requests for secrecy and situations where people need money urgently. Ask the hard questions before you hand over your money, not after.
- Tell them you promised your spouse or parents you would always use an attorney when you invest your money in a project like this and you still respect and trust them as a friend. A lawyer won't tell you if the investment is good or bad, but whether it is documented properly and whether or not you're protected if it doesn't perform as expected.

Bottom line: if you feel you can't ask for thorough documentation, or could never sue or send a nasty letter to the person you are going to be in business with, this is probably a project you should walk away from to hang on to the relationship.