

# Investing In Son's Business Could Cause A Real Family Feud

By Tim Knox

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Online Entrepreneur Q&A  
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Q: My youngest son wants to borrow \$5,000 to start his own business. My wife is afraid to tell him no. She thinks we should just give him the money and not expect anything in return. I disagree. He doesn't have a very good track record with money, so I'm a little worried that my investment will be lost. Should I loan him the money and hope for the best or just tell him no and hope he doesn't get too upset?

A: The first thing you need to do, Jeff, is determine if this money would be offered to your son in the form of a gift, loan or investment. The very wording of your question tells me that you have not yet made that all-important distinction.

It sounds like your wife wants to make a gift of the money, expecting nothing in return but the undying love of her last born son.

You, on the other hand, don't know if you should offer the money as a loan (should I loan him the money) or as an investment (worried that my investment will be lost).

Until you can make that distinction, your money should remain in the bank.

I have a very simple rule when it comes to loaning money to relatives, Jeff: NEVER, EVER loan money to anyone you might have to sit next to at Thanksgiving dinner. "Son, pass me that dressing and tell everybody the story of how you blew your old dad's retirement money..."

A loan from a relative is no different than a loan from a bank. You, Mr. Banker, are giving your son, Mr. Borrower, the use of your money for a specific period of time and you fully expect the loan to be paid back under specific terms, even if his business goes south. Sure, you will probably be a little

more forgiving than a bank when the loan goes unpaid, but the damage to your personal relationship could be extreme and hard to repair.

In the most basic of terms if you loan your son the money you become the creditor and he becomes the debtor. Have you ever heard of a creditor and debtor having a very good relationship? Has Visa ever called you up just to ask how you're doing? Has your mortgage company ever named a kid after you? Probably not.

The same rule applies with investing in a relative's business. I have raised money for several business ventures and not once did I ever think about asking my relatives to chip in. The last thing I'd ever want to do is lose my mother's yard sale money. I'd never hear the end of it!

An investment is made with the understanding that your money is totally at risk with no guarantee of return. Even under the best of conditions an investment in any business is a gamble. You are betting your money that the business will be successful and that you will get a payback at some point in the future.

Hug your money real tight before making the investment, Jeff, because if the business doesn't make it, you will never see your money again.

You and your wife also seem very worried about making your son mad, which raises another huge red flag for me. If your son isn't mature enough to take the word "no" without getting upset, he's certainly not mature enough to start and run a business. Unless that business is a bicycle paper route, and even then I wouldn't put my money on his chances of success.

The bottom line is this: if you can afford to give your son the money and can do so without attaching strings to it, then by all means give him the money and wish him well. Encourage his entrepreneurial spirit and support him as a parent should. Do not, however, expect anything in return and never bring up the money again, especially if he's the one carving the turkey on Thanksgiving Day.

Here's to your success!

Tim Knox

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Online Entrepreneur Q&A is written by veteran entrepreneur and OnlineProfits4U.com founder, Tim Knox. Tim serves as the president and CEO of three successful technology companies: B2Secure Inc., a Web-based hiring management software company; Digital Graphiti Inc., a software development company; and Sidebar Systems, a company that creates-cutting edge convergence software for broadcast media outlets.

Tim is also the Ebusiness Startup and Design Expert for Entrepreneur.com, the website of the national publication Entrepreneur Magazine. As if that wasn't enough to keep him busy, Tim also writes the weekly newspaper column "Small Business Q&A" which focuses on small business startup and success.

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