

Can a Small Business Invest in Stocks?

Expert Advice on Investing as a Small Business

As a small business owner, there are a variety of different ways that you can earn a profit with your company—and one option is investing in stocks as a business. If you're interested in investing as a small business, make sure that you recognize the risks involved. Here are some important considerations to make beforehand.

Key Takeaways

- It's important to do your homework before investing as a small business. Get clear on why you want to invest and learn about the different options for your situation.
- Regulations and taxation on business investments can be complicated; make sure to speak with a financial advisor and a CPA before investing.
- Investing in stocks can be risky and distracting. Consider alternative investments or putting the funds towards growing your own business.

Some Considerations Before You Buy

“The first thing a business needs to consider when investing is their ‘why,’” Ken Alozie, managing director at Greenwood Capital Advisors, told The Balance via email. He said that the business owner should ask themselves how this investment helps meet business objectives. They should also think about the business's liquidity needs, time horizon, and risk tolerance of market volatility. The answers to these questions can help business owners to [choose the best investment](#) for their situation.

Make sure that you're familiar with both your personal and business financial standing before committing to new investments.

Small business owners are already stretched thin, and some investments can not only be risky, but also distracting and time consuming. “There is no point in investing in something you are not familiar with,” Certified SCORE mentor Diana Martinez explained via email to The Balance. She said that if business owners don’t have the knowledge, then they should be sure that they can spend the time understanding and taking charge of their own investment portfolio—not just relying solely on a financial advisor.

Investment Options and Rules for Different Company Types

If you choose to invest as a small business [your options will vary](#) depending on the type of business it is. The regulations and tax considerations associated with business investments can get complicated, so before you start it’s important to speak with a qualified financial advisor as well as your accountant.

If your business has additional owners or investors, loans, business insurance liability policies, or other such considerations, double-check that you’re able to spend business funds investing in stocks.

Here are some things to consider, depending on the structure of your business.¹

Partnerships and Sole Proprietorships

Partnership accounts themselves are not taxed, the taxes instead are applied to each partner and recorded on personal income tax returns. Similarly, with sole proprietorships the business owner and the business itself are treated as one unit when it comes to taxes and liability.

Limited Liability Companies

Limited liability accounts receive some of the same perks as partnerships, as well as corporations. LLCs are treated with pass through tax status like

partnerships, and they also have limited personal liability like corporations do. An owner and its business's liability is confined to the investment.

Corporations

Corporations are able to obtain assets, undertake contracts, sue others or be sued themselves, and be taxed all as a corporate entity.

How To Invest in Stocks Through Your Business

If you're a small business owner looking to invest, the process will be similar to how you would [invest as an individual](#). If your business is recognized legally, then you can have an investment account as a business entity. You'll need to abide by the regulations and taxation relevant to your situation, so make sure to discuss your options and requirements with a financial advisor and a CPA.

Your investments as a business will be contingent upon how much time and energy you're willing to commit, as well as your risk tolerance. You can begin to learn by investing in some stocks—if you do it on your own you can avoid fees and begin with a low amount, Certified SCORE mentor Martinez suggested.

If you would prefer to have a professional manage your portfolio then you'll be charged fees, and will presumably need to have a higher initial investment amount. Martinez warned that if you invest in stocks for trading, to only use funds that you can afford to lose, and to be aware that in the beginning you'll likely pay for the learning experience.

Alternatives to Investing in Stocks Through Your Business

Talking with The Balance via email, Certified SCORE mentor Hal Shelton had a few different suggestions for small business owners who are not familiar with stock or bond market investing:

- Hire a professional to manage business investments.
- Opt for investing in individual, non-callable bonds held to maturity, or equity indexes.
- Have a long-term view of three-to-five years.

Alternatives to stock investments include index funds and ETFs, which offer low-cost broad market exposure, and often diversification as well, Alozie of Greenwood Capital Advisors said. He added that for a little higher price tag actively managed mutual funds can provide access to professional investment management and security selection.

Alozie suggested that businesses that just want to earn higher than the bank savings rate may consider investing in a [money market account](#) or using cash management services from a bank that will invest in lower-risk bonds with high liquidity and short maturities.

The [U.S. Securities and Exchange Commission](#) has some resources to help you learn more about the differences between stocks, bonds, and cash equivalent assets.

Is Investing in Stocks Right for Your Business?

If you're considering investing in stocks as a business make sure to first identify your motive. Ask yourself if the funds would be better spent elsewhere, or invested back into the business.

You'll want to have a clear understanding of both your personal and business financial standing, and be aware of the potential risks involved with investing. Investing in stocks can be a distraction as well—make sure that you're able to commit the time and effort. Taxation and other requirements will depend on how your business is structured, so make sure to speak to professionals beforehand to learn the best options for your business.

Frequently Asked Questions (FAQs)

How do I know which stocks to invest in?

Make sure to do your research, and keep all investments in alignment with personal and business goals. Consider investing in stocks related to your business as you're already [familiar with the industry](#) and the factors that impact it. Another possibility is to invest in blue-chip stocks, which are well-known, financially stable companies—these tend to offer less return but have lower risk.

When is the best time to invest in stocks?

If you're considering investing in stocks as a small business, the [timing will depend](#) on your business's financial standing and goals. You can start out investing at a very modest level, and increase your portfolio over time.