

## Memorandum

To: Clients, Friends, Family & Associates of ProActive Advisory  
From: Mark Wyssbrod, Managing Member  
Date: March 19, 2015  
Re: Stealth Bear markets and the rule of 5!

In this memorandum you will receive information about the following:

- Interesting industry valuations; stealth bear markets
- Declining unemployment rate
- Rule of 5 for small businesses

Please contact me should you have any questions. Be mindful to balance your Bull with your Bear!

### Interesting industry actions; stealth bear markets

It seems as if the market continues to advance and the world is full of sunshine! However, there might be a few shadows. As the market climbs, certain industries have outperformed other industries. For instance, utilities had a correction in valuation last fall (10% reduction from peak), energy has been in a bear market (20% reduction from peak) which began last summer (with some valuations reduce by 70% or more!) and as I typed this technology had a hiccup the week of March 9<sup>th</sup>. Which industry will be the next to rotate into a correction or bear market? Will the overall market be able to continue to mask selected industry weaknesses?

### Declining unemployment rate

The unemployment rate declined once again and economist are now estimating unemployment may drop to 5% or lower; a rate now seen since 2007! The market responded positively to more people being employed; however, a large portion of new jobs were for restaurants, bars and entertainment and the jobs currently being lost are oil field jobs which can pay significant wages. Why does the market cheer when we are creating a lot of low wage jobs and lose a lot of high wage jobs?

### Rule of 5 for small businesses

The rule of 5 for small businesses is that most small businesses don't make it to their fifth year in business. According to Forbes Magazine 80% of small businesses fail within the first 18 months. I mention this as I have been witnessing weakness with a handful of small business startups (within this 5 year period) I am assisting. Two of the three have a serious shot at being mixed in with the aforementioned 80%.

As the small business economy began to improve over the past three years several small businesses began operations. These businesses are now entering a time in which they may be running out of capital, lower sales than anticipated and lack the experience needed to survive.

On a side note five years is 10,000 working hours; at 2,000 a year, but if you're a small business owner you will be working much more than 2,000 hours a year! Author Malcom Gladwell concluded in his book Outliers that you need 10,000 hours to master something. Without these 10,000 hours in small business, many owners lack the experience they need in order to survive. Entrepreneurs must balance their passion of service with overworking; they must get the experience needed without burning out.

Instead of investing in education and experience, many small business owners use the low bid model to try to save. People generally understand cheapness, but have a more difficult time determining a good value. The small business owners begin to destroy the value chain and benefits received which in turn helps them become a part of the 80%.

Of course, there is bad timing, bad luck and other factors involved with business failures. And please remember a failed business does not mean the individual is bad or unlucky; small business is difficult!

### Conclusion

This world changes pace quickly these days. I recommend for you to build your business position including a significant cash balance (20-30%+ of revenues; after taxes are paid) to deploy when opportunity shows itself and to survive the next economic hiccup.