

Memorandum

To: Clients, Associates & Friends of Pro@ctive Advisory
From: Mark L. Wyssbrod, Director of Tax Planning and Strategy
Date: February 25, 2014
Re: Opportunity Cost

In this memorandum, you will receive information about the following:

- Stock markets and the small business economy
- Opportunity cost

Please contact me should you have any questions. Don't miss your greatest opportunity due to distractions!

Stock markets and the small business economy

The stock market has been down and volatile this year. Just a few weeks ago I released my economic predictions 2014 would be stable for small business. So why is there a disconnect between the stock market performance and the small business economy?

First, I did not predict how the stock market would do. Second, the most of the stock markets you hear about (the Dow Industrial, NASDAQ and the S&P) are for very large mega-corporations. These large corporations have a large international reach as well. This is very difference from the small business environment, which can range from \$0 to \$50 million in revenue; much smaller than a multi-**billion** dollar company.

I continue to see and hear a lot of revenue generating activity and back logs in production and services (even before the recent weather related incidents). Finally, I observed over a year ago confidence was returning and it is still here.

There are many disconnects between the stock markets and the small business economy (even more than I mentioned). Think about tax strategies. Generally, small businesses use the low-bid approach to tax preparation and then say there is no value. When was the last time you received a great value for the cheapest product you can find?

Additionally, small businesses uses S-corporation status, funding retirement and Section 179 depreciation (deduct your fixed asset right away) as the primary tax strategies. Mega-corporations have tax departments to receive the maximum efficiency. The tax departments are formed by hiring very intelligent individuals to incorporate complexities to increase tax efficiency and they pay them well. That is they receive maximum value for their dollar spent.

If you would like to discuss any of the stock markets-small business economy disconnects or setting up a tax department for your business please contact me.

Stay warm and safe,

Mark W.

Opportunity Cost

As the economy continues to stabilize and improve for small businesses how do you know which task takes priority? Should you answer the telephone or respond to an e-mail? Should you take an hour to network or spend two hours to bid on a possible job?

According to the current book I am reading, Economics by Barron's Walter J. Wessel, opportunity cost is the value of the item people give up when choosing a between uses assuming the items are scarce. If you have two items to choose from, A which can generate \$100 in revenue and B which can generate \$200 in revenue; the opportunity cost in B is \$100 since you did not pursue A.

What is a scarce item? Scarcity is when people want more than can be satisfied with available resources. The most scarce item we have is our time. So to take advantage of the improving small business economy we must be very efficient with our time.

Small business owners must increase time management skills. This will include how to prioritize opportunities and responsibilities. Small business owners will have to calculate their opportunity cost when selecting one item over another.

As Benjamin Franklin stated, "Lost time is never found again."

I hope this message finds you "timely",

Mark W.

IRS Circular 230 disclosure: To ensure compliance with requirements imposed by the IRS, we inform you that any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.