



## Memorandum

To: Clients, Friends, Family & Associates of Pro@ctive CPA  
From: Mark Wyssbrod, Managing Member  
Date: January 22, 2013  
Re: Economic Update – A Safety Bubble?

In this memorandum you will receive information about:

- Are We In A Safety Bubble?
- Small Business Safety Bubble and Possible Solutions
- Individual Safety Bubble and Possible Solutions
- Fear Is A Strong Emotion!

Please contact me should you have any questions. Be brave in all of your actions!

### **Are We In A Safety Bubble?**

My career has been nothing but a bunch of bubbles! First, the dot-com bubble. Then the real estate bubble! Followed by a financial bubble! Now are we facing a safety bubble?

The old saying goes “the higher the risk, the higher the reward!” Our actions are saying no risk, so if the old saying is accurate, we will have no rewards. Is the fear of loss really this powerful? Will we have regrets for being so passive in the future?

These are challenging times and fear is not the answer!

Be creative and look for the right opportunities,

Mark W.

### **The Small Businesses Safety Bubble**

Small businesses appear to be staying away from risk by not investing in their businesses. Small business may not be able to afford risk due to their business position. Businesses which are leveraged and have working capital issues (i.e. lots of debt and not enough cash) do not have the resources to invest in their business. The cash flow remains tight and there are no funds to expand, purchase fixed assets or hire employees. This position forces the business to focus on reducing debt instead of investing in expansion – a forced safety bubble position.

#### Possible Solutions For Small Businesses

- Focus all efforts on rebuilding the business position
  - Use all after-tax profits to reduce short-term debts, then build cash reserves



- Pro:
  - The faster you can rebuild your financial position, the quicker you can invest in your business and expand when opportunity arises!
- Cons:
  - Reducing debts helps fuel the safety bubble in the short-term
  - The sacrifice will challenge you mentally
- Raise Capital, Joint Venture or Merge!
  - Pros:
    - Increases the equity and cash position of the company
    - Increases accountability
    - Increases team members who all want to succeed!
  - Cons:
    - Small business owners like being 100% owners without any accountability
    - Share of future profits

### **The Individual Safety Bubble**

Individuals appear to avoiding risk by preferring money market and CD rates of less than 1% than market risk. Even as the market has had solid returns in 2012, the fear of loss is far outweighing any potential reward for profit. As consumers continue to improve their financial position, which they have over the past several years, their risk appetite might begin to hunger with the result of investing (cash inflows) in the market.

However, the individual investors might feel a little burned by over a decade of no returns, financial bailouts and corporate scandals. They seem to have an ill taste in their mouth as they feel the only winners were their financial broker (fees charged) and the Wall Street Machine. More and more individuals I speak with want to invest in something away from Wall Street which they can see, have control of and has better returns. Let me know when you find this!

### Possible Solutions For Individuals

- Focus all efforts on rebuilding your financial position
  - Use all funds to reduce short-term debts, then build cash reserves
    - The market place has taught us we cannot control the price of our assets, but we can control the amount of debts we incur
    - Pro:
      - The faster you can rebuild your financial position, the quicker you can invest in yourself and your retirement as opportunity arises!
    - Con:
      - Reducing debts helps fuel the safety bubble in the short-term
- Invest With Confidence
  - If you decide to invest have a plan and manage risk



- Generally speaking, the more you plan and understand the better the outcome
- Do not be a passive investor, be involved!
- Be patient and remain calm; understand your investment strategy and goals
- Be aware of your emotions
  - “Buy low, sell high” is the Wall Street saying
  - “Sell low, buy high” is what our emotions drive us to do
    - If it’s low, it’s bad and we need to get rid of the pain
    - If it’s high, it’s must be safe and we purchase

### **Fear Is A Strong Emotion!**

The fear of loss is more powerful than the happiness of a victory. We need to understand this when making business decisions and the volatility of which it may have. For example, if an investment increases 20% we receive minimal happiness (perhaps because it meets our expectation and/or needs); however, a 10% unrealized loss creates financial stress, panic and worry! Identifying our emotions and learning to control them will allow us to be more patient with our decision making process.

We change our mindset when we allow fear to be the leading emotion in decision making. Fear can paralyze your decision making process leading to no action; it can force protecting what you have instead of seeking opportunity; and it focuses our mind on the items which have gone wrong instead of all the items which have gone right and we should be grateful for!

Challenge your mindset and seek opportunity!

Best wishes,

Mark W.

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