

Memorandum

To: Clients, Associates & Friends of Pro@ctive CPA
Form: Mark L. Wyssbrod, Managing Member
Date: July 2, 2013
Re: July Economic Update: Real Estate Update & Small Improvements

In this memorandum you will receive information about:

- Economic Update & Home Prices
- The importance of small improvements

Please contact me should you have any questions. Focus on the little things as it makes executing on the larger tasks easier.

Economic Update & Home Prices

I attended the Georgia Society of CPAs Real Estate conference at the end of June. Mark Vitner, the Managing Director & Senior Economist from Wells Fargo Securities, opened the conference with a down-to-earth economic forecast. Although the economy has improved Mr. Vitner is forecasting US economic growth at ~2.1% for the next few years. This is well below the ~3% annual growth we are used to. This is ~33% less growth! Apparently, household debt service is taking cash flow away from consumers, which compromises ~67% of our economy. We can grow faster if households take on more debt, but that is one of the pieces in the puzzle which lead to the Great Recession. Although household net worth is back near pre-Great Recession (small business depression) levels, Mr. Vitner stated when you dig into the numbers you find the increase in net worth is concentrated in affluent households; the average household has not yet recovered.

The increase in real estate activity is being offset by declining government spending. Reports of a rising consumer confidence is positive; however, the current rating ~80 is lower than the last recession trough. This might mean there is further expansion for future increases in confidence, but it also shows the continued challenges consumers are faced with.

Unemployment continues to improve, however household income is not keeping up with standard of living increases. Mr. Vitner suggests this is one of the real problems: Why did we have to borrow so much money? Apparently, our income was not keeping pace with our life style expectations. Mr. Vitner did state the middle class gets squeezed the most in income as the bottom 20% of income earners and the top 20% of income earners had a faster income growth rate.

Housing starts appear to be strong. The home builders just can't seem to win though. The news has had a few segments suggesting home builders are holding back inventory in order to let prices continue to increase. This seems unlikely, as home builders are most likely thinking about the past five years and being lucky they survived; they probably do not want to (and are sensitive to) over-expand their inventory and future investments. After all, these are two items which helped caused them a lot of trouble just a few years ago.

Will home prices continue to increase? I do not believe they will increase significantly as additional inventory is coming to the market and due to the way home buyers purchase houses. Home buyers purchase houses by monthly payment. The monthly payment is based on the purchase price (or loan balance) and the interest rates. Assuming a purchaser's monthly payment amount stays constant if interest rates rise (as they are expected to do) then the purchase price (or loan balance) would decrease.

The importance of 1% improvements

I asked Mr. Vitner after his economic update, "How does a small business apply all of this national and regional information you provided." He answered they must use technology to improve efficiencies. Great advice I thought as I am an efficiency buff! Additionally, I have been writing on efficiency improvements for a few years.

A 1% improvement may not initially sound like a lot. However, if you are a \$1,000,000 company, a 1% improvement can generate \$10,000 in savings. Imagine if you could improve 2% or 3%!

However, as I began listening to and speaking with small business owners it appears they do not have the capital, time or energy to pursue these solutions.

Does anything keep me up at night? The statement of small business owners stating they are running on "E" (empty) and cannot keep pace with the volatile economy nor take advantage of rising opportunities. This does trouble me and I believe we must derive a realistic solution.

Conclusion

Even as the small business economy improves multiple challenges still exist for owners and managers. Continuous improvements in operations and refinements in strategy are necessary. Pay attention to the detail and do not brush aside the little things. Replace arrogance and ego with confidence, creativity and genuine caring.



Implement thoughtful, creative strategies and execute with vigor,

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.