

Memorandum

To: Clients, Associates & Friends of Pro@ctive Advisory
From: Mark L. Wyssbrod, CPA
Date: July 10, 2014
Re: The way we think

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

- Aligning your life and business mission statements
- How do we overcome our known flaws?
- Important dates to remember
- Financial ratio of the month

Please contact me should you have any questions. When things do not go your way, remember to have a backup plan!

Aligning of your mission statements

A few weeks ago, I was talking to a group about the stabilizing small business economy. I mentioned the importance of having your life's mission statement be similar to your business mission statement. I have observed similar statements about helping you align your energy, reduce your stress and unlock your passion. Increasing your passion unleashes your full potential, which can help maintain a positive attitude.

Your attitude counts, especially in a leadership role! When you think about and discuss your business you need to have an attitude of "I am (or we are) building amazing things", "we are doing great works", "we are helping our clients", and "we are improving our community." I might not have written this a few years ago due to my logical, non-emotional business nature; however, I have noticed the great importance of one's attitude.

During the past two years, I have witnessed a change in small business attitudes from pessimism (nothing is going right) to optimism (things are happening!). This change has allowed me to observe small business owners behavior. I have noticed the ones still complaining do not have the ability to see any improvement in their business and do not possess a short-term or long-term vision.

On the other hand, the individuals who see opportunity focus on obtaining the sale and growing their business. These individuals are currently firmly aware of their challenges, however they choose to focus on solutions.

Does your attitude align with your business goals?

Mark W.

How do we overcome our known flaws?

Matt Krantz wrote an article I read on CNBC titled “5 Brain Flaws That Make You A Lousy Investor” <http://www.cnbc.com/id/101766393>. I thought these flaws are interesting insight to the human mindset and might be applicable to small business owners and their behavior.

- Trading bias
 - Mr. Krantz suggests humans leave too much gain on the table:
 - Humans tend to buy too early and sell too early
 - Humans tend to buy too late and sell too late
 - The infamous Wall Street saying is “buy low, sell high”
 - Our emotions tell us to “buy high” after the stock has run up and “sell low” after the stock has already had significant losses
 - Small business application
 - Do not chase fades in your industry
 - If all of your competitors are already offering the product or service the margins may be about to significantly contract
- Recency effect
 - Mr. Krantz suggests humans assume what is currently happen will always happen the same way
 - This mindset allows us to feel comfortable because our mind concludes the outcome is known
 - This results in false confidence
 - Small business application
 - When you feel comfortable about something or the way you have been conducting business has not changed in months or years its time to have a strategic planning session in order to innovate and improve efficiencies
 - You want to take action before your competitors do so
- Sunk costs fallacy
 - Mr. Krantz states investors cannot admit to making a mistake so they do not sell their losers, instead they double down on their bad investment
 - Small business application
 - I have observed small business owners invest in bad ideas or good ideas with poor implementation and then continue to invest without any signs of a positive return
 - Why would they do such a thing?
 - Because it was their idea and if someone tells them it’s not a good idea they become upset

- Over confidence effect
 - Mr. Krantz observes when our investments increase humans tend to believe it's because of their intelligence and skill instead of other factors, including luck
 - Small business application
 - Continue to have a solid work ethic; work harder and smarter
 - Challenge your thoughts and conclusions; set aside your arrogance
- Prospect theory or "framing"
 - Mr. Krantz concludes investors are significantly more sensitive and upset to a 10% lose as they are happy with a 10% gain
 - This allows you to draw incorrect conclusions regarding market movements
 - This could be due to assumptions stocks only increase (or why would you invest) or expectations of a return
 - Small business application
 - Have patience and a written plan
 - If your business decisions is not having the immediate results you expect:
 - Take a deep breathe
 - Review your written plan to determine if you are on track and if you are receiving the expected results
 - Revise the written plan as necessary
 - Update the assumptions and expected results

Logic and human emotions seldom seem inline. Let your logical, thought-out and written down business decisions drive your emotions. Do not let your out-of-control emotions drive your thinking and business decisions. Please call me should you desire to discuss in detail.

Important dates to remember

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- July 15 - Extension for certain trusts
- August 15 - Second extension for non-profits
- September 16 - Corporate, partnership & trust extended due date
- September 16 - 3rd quarter estimated tax payments
- October 1 - SIMPLE IRA setup deadline

Financial ratio of the month

Key Performance Indicator (KPI)

KPIs can be industry and business specific. This measurement can allow a company to compare itself to competitors for efficiencies. KPIs can also allow managers to have a target to aim for.



A hotel might have a KPI of room capacity. An airline might have a KPI of fuel cost per seat per flight. What KPIs should your company have?

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