

Memorandum

To: Clients, Friends, Family & Associates of Pro@ctive CPA
From: Mark Wyssbrod, Managing Member
Date: March 25, 2013
Re: Economic Update – Super Bullish

In this memorandum you will receive information about:

- A Recap of December 2012 Predictions
- Why so Bullish?
- Is It Time To Play Offense?
- Don't Forget To Plan!

Please contact me should you have any questions. Be prepared to see opportunities!

He said what?

Last December I wrote and shared some bearish opinions, but being more optimistic about the second half of 2013. These bearish opinions are not to be taken as I am a pessimist. On the contrary, I believe I am a realist and have a neutral take on information; weeding out any biasness. I was correct in this sentiment as the 4th quarter GDP was slightly negative. The first quarter of 2013 is looking pretty soft. I forecasted a slight recession for the first part of 2013.

Is This A Bunch Of Bull?

As times change so do opinions; I have now turned very bullish. Two years ago I turned the bullish for the first time since the “Great Recession”. A year ago I turned bearish as gross profit margins contracted for many small businesses. This is the most bullish I have been on the small business economy since 2005. So why am I bullish now?

- It appears as if the economic slowdown was a quarter earlier: the 4th quarter 2012 and the 1st quarter 2013
- Orders are building even though sales have not hit the register at this time
 - The sales should begin to close in the 2nd quarter 2013
 - Business owners and managers are confidence this orders are true
 - Not like past years when the orders never came to fruition
- I recent drove around Gwinnett County, South Forsyth, North Fulton and Cherokee Counties
 - The number of major construction projects is significant

- Shopping outlets
- Warehouse space
- Hospitals
- Residential
- Commercial
- These projects will most likely be completed in the 2nd quarter or 3rd quarter 2013 and additional business will begin
- Once empty shopping centers are now filling up
 - Although I believe this is a short-term positive signal it could also be businesses moving to lower rent district, leaving other space vacant
 - The lower rent, if sales are not lost due to new location, should be a positive effect for profitability
- European financial crises seems to be stabilized
 - Actions are being taken to stabilize economies in the short-term
 - This may lead to long-term problems, but for now, it is positive
 - Hopefully there will be no more surprises or shocks
 - Greece and Cyprus anyone?
- Consumers continue to spend money
 - Even if it is taking on debt or reducing savings
 - This is good in the short-term, but may lead to long-term issues

So what are the headwinds?

- Robots are doing more, for less and don't steal or complain
 - Warehouse and manufacturing jobs are at risk
 - Due to this technology GDP can continue to grow while unemployment continues to stay high (especially the U-6 which is the "underemployment" ratio)
 - Retaining the traditional blue collar or lower white collar workers into productive IT or higher skilled services may be more challenging than many individuals believe
- Continued financial pressures
 - Small businesses still need to pay down debts with current and future profits
 - Small businesses still need to build cash reserves and working capital
 - The sacrifice is stressful and discipline might be waning
 - For several years profits have been used to pay down debts incurred 5+ years ago
 - Going forward sacrifice will be necessary to build company liquidity and working capital

- Perhaps 12-14 more months
- Possible black swan events
 - A strike on Iran's nuclear laboratories
 - North Korea attack on South Korea or missile launch on US ally
 - North Korea stated the treaty to end the Korean War has been voided
 - European weaknesses grow
 - Printing money cannot be a long-term solution

Time to Play Offense!

It may not be perfect, but all in all this appears to be shaping up for the best business environment in 6+ years.

Action Item: Time To Strategies and Plan!

We advise for our clients and friends of the firm to review their business environment, update their business plans and take appropriate actions to take advantage of the soon to be best economic environment in years.

Best wishes and execute with vigor determination,

Mark W.

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